change

MITEL CORPORATION → 99 ANNUAL REPORT

→ Headquartered near the capital city of Ottawa in Canada, Mitel is a global designer, manufacturer and marketer of networked systems and specialty semiconductors for the communications industry. Mitel Communications Systems provides enterprises with voice and data communications systems; complete private networks including remote teleworking solutions; unified messaging and call-center applications; CTI systems and applications; and it supplies competitive carriers with public network access products. Mitel Semiconductor specializes in connectivity solutions for the communications and medical industries with a product range which includes components for both wired and wireless networks; microelectronics for enabling the convergence of voice and data; optoelectronic devices for high-speed Internet systems; and applications-specific integrated circuits (ASICs) for medical applications such as pacemakers and hearing aids.

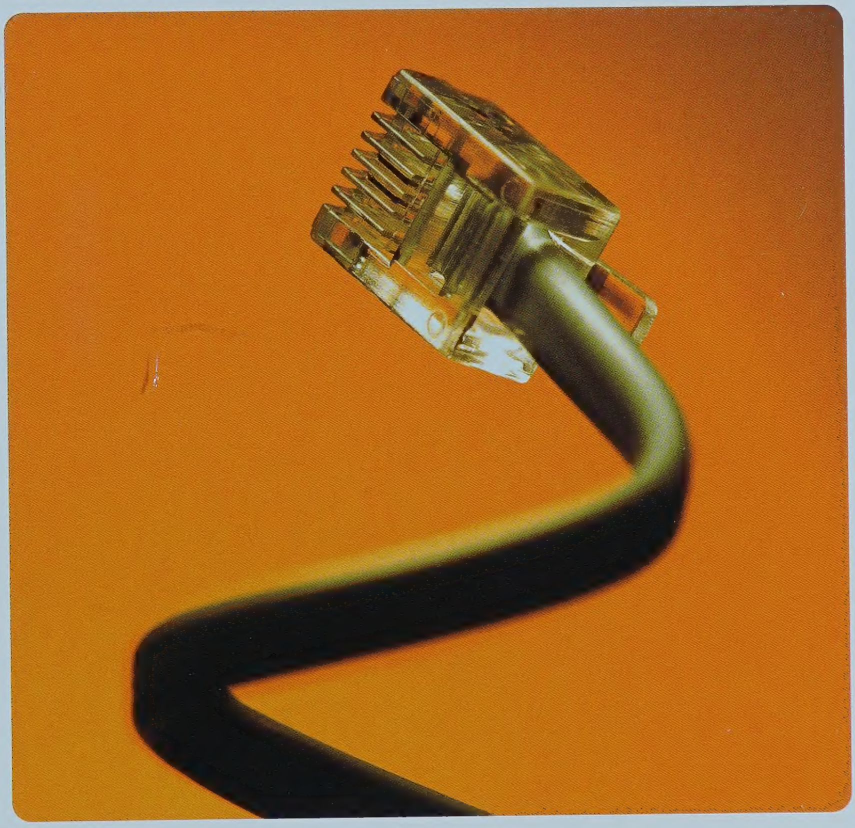
because change drives opportunity

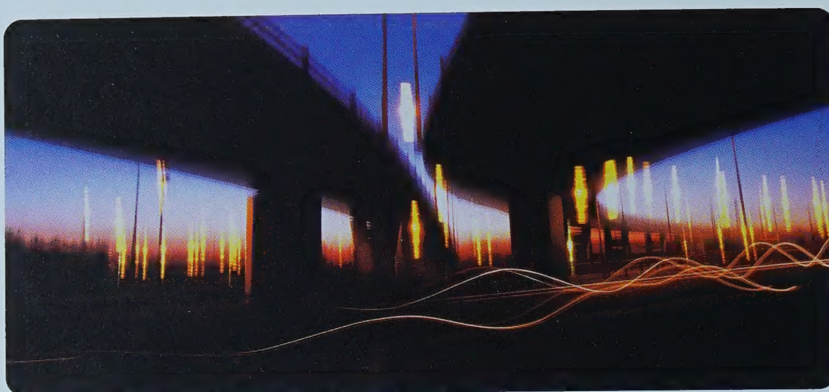
D.001 CONVERGENCE

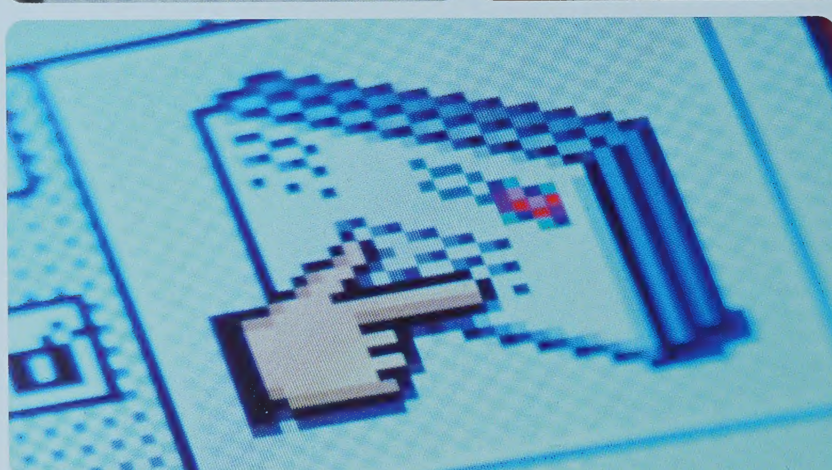
just one jack in the wall

The convergence of voice and data is close on the horizon. Soon, computer data and telephone signals will be travelling down the same wire.

The marriage of voice and data has already been blessed by a host of enabling technologies. It's just a matter of time before computers and phones connect to the outside world through a single wire. Last year, Mitel made strides in the design and manufacture of telephone systems that can be installed alongside the data infrastructure of any enterprise. Then, when a Mitel customer is ready for the benefits of converged data and voice, migrating to one jack in the wall will be swift and inexpensive.







it's called the Net effect

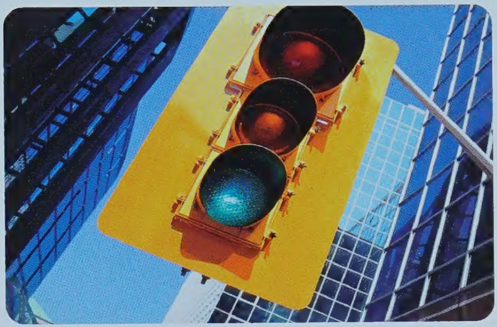
Demand for Internet access in North America is exploding. Consumers are only now beginning to understand the value of immediate universal communication.

The demand for connectivity is greater than ever before, especially in markets such as North America where expansive geography has given generations an appetite for inexpensive communication. The most efficient ramp to the Internet is still TDM, a Mitel-pioneered technology used to route data through telephone lines. Last year, Mitel accelerated development of hardware and software that will soon make communication over the Internet easy and inexpensive.

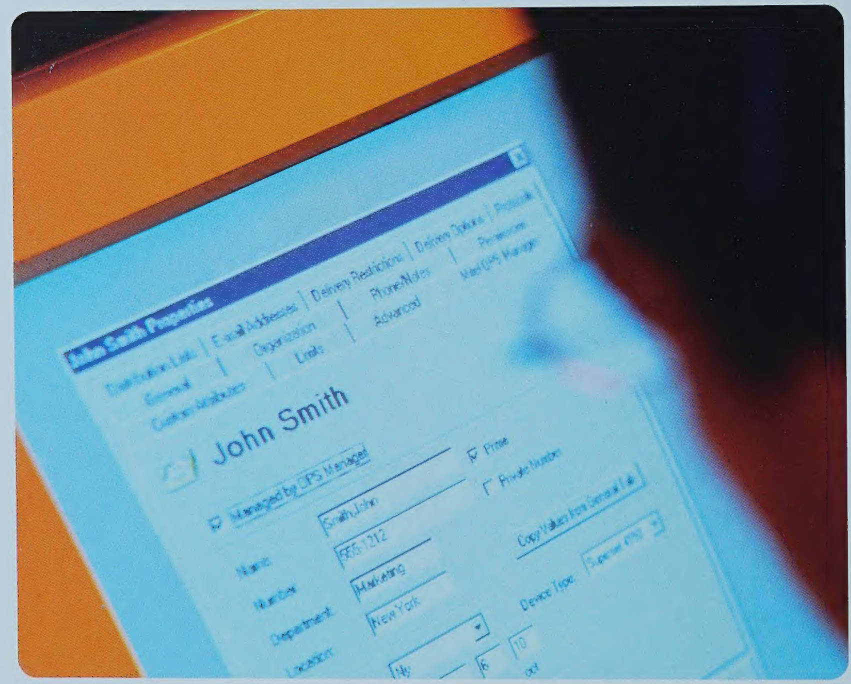
rise of the virtual workplace

Increased expectations of mobility and demand for flexibility are leading rapidly to 'dispersed workgroup productivity'.

Concepts such as mobile communication, remote access and teleworking are fast melding into the single notion of a virtual workplace. The perceived need now is for workers dispersed by geography and time to function as though they were in the same space. Last year, Mitel implemented new strategies to ensure that customers be equipped for location-independent working – enjoying all the benefits of a shared workplace even when dispersed.




SEND


John Smith Properties
John Smith
Name:
Number:
Department:
Location:
Smith,John
555-1212
Marketing
New York
Device Type:

evolution... yes, but make it graceful

While consumers expect greater power and functionality with each product upgrade, they are reluctant to learn a whole new interface to access them.

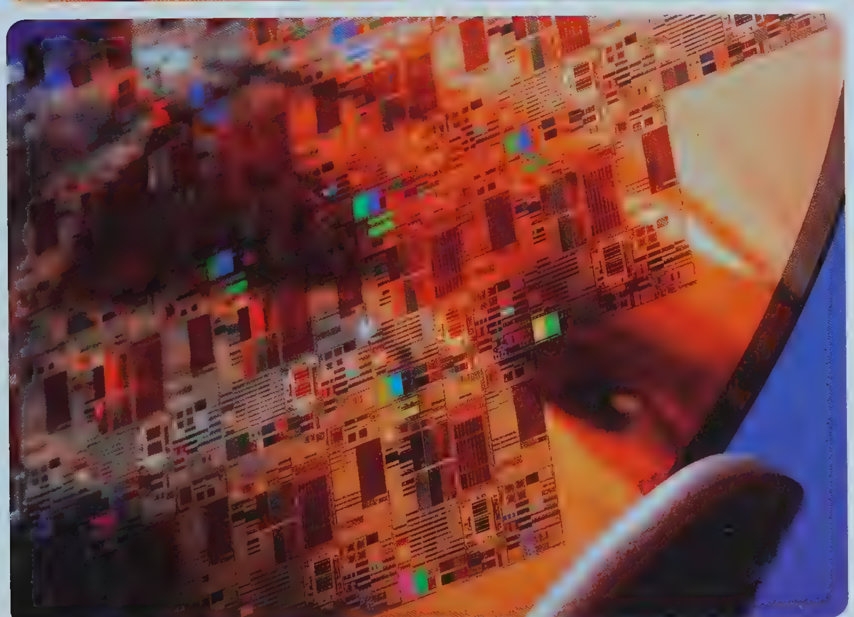
[illegible]

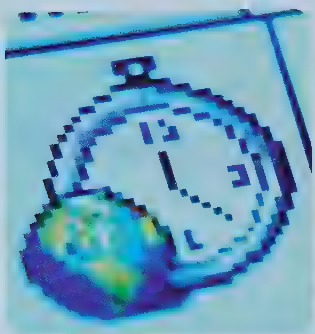
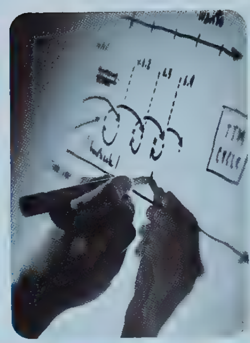
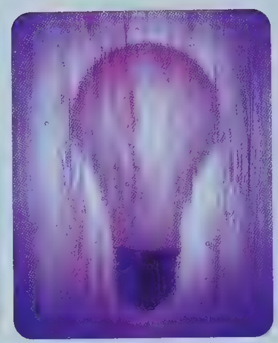
D.005 INTEGRATION

more on less for less

Cost effect. It's the predominant preoccupation of technology customers around the world.

It's the same in most applications that could benefit from integrated circuitry. It's [illegible] to design and manufacture a chip set that makes the new product good enough, small enough and cheap enough to be a hit. [illegible]. At [illegible], we've got that expertise [illegible]. We call it our microelectronics advantage, and last year that advantage got even better. Through strategic acquisitions, the company achieved the highest critical mass of expert designers in its history, and inherited a trove of diverse yet complementary technologies enabling [illegible] to produce integrated circuits that were smarter, smaller and more cost-effective than ever before.




innovation at the speed of imagination

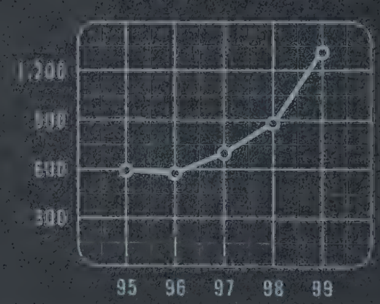
Communications customers expect the innovations they read about one month to be available in the products they buy the next.

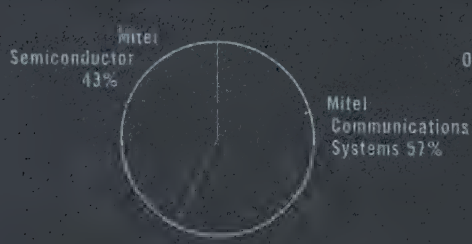
The [illegible] of [illegible] product. [illegible] Last year [illegible] product-development system to ensure that even the most recent innovations are incorporated into products as they go to market. It's called an iterative development process, and it means that [illegible] now turns imagination into innovation on a daily basis.

Financial highlights

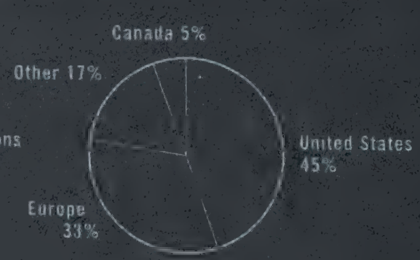
($ millions Cdn, except earnings per share amounts)	1999	1998	1997	1996	1995
EARNINGS					
Revenue	$1,310	$ 881	$ 696	$ 576	$ 589
Research & development	150	52	50	39	45
Net income from continuing operations	41	92	38	51	32
Net income	26	92	38	51	32
Adjusted net income *	80	94	52	51	37
Earnings per share	0.20	0.82	0.32	0.45	0.27
Adjusted earnings per share *	0.67	0.84	0.45	0.45	0.32
CASH FLOW					
Cash flow from operations before working capital changes	$ 166	$ 126	$ 73	$ 71	$ 47
Gross capital expenditures	86	59	74	35	17
BALANCE SHEET					
Cash, cash equivalents & short-term investments	$ 125	$ 152	$ 143	$ 137	$ 142
Working capital	337	246	206	210	208
Total assets	1,300	1,252	585	517	441
Total long-term debt	314	420	58	51	44
Shareholders' equity	647	436	340	303	263
Number of shares outstanding (millions)	116.7	108.4	107.4	106.1	105.8

* [illegible]

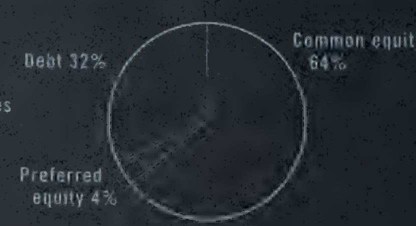




REVENUE BY BUSINESS SEGMENT



REVENUE BASED ON CUSTOMERS' GEOGRAPHICAL LOCATION



CAPITALIZATION

To our shareholders

At Mitel, Fiscal 1999 was a year of unprecedented revenue growth. As with all things exceptional, it was also a year of adaptation.

Total Company revenue grew by 49 percent to a record $1.31 billion from $881 million in Fiscal 1998. Considering revenue by business group, Mitel Communications Systems (Systems) revenue grew by a healthy 33 percent to $753 million — primarily because of solid performance in our North American and European markets — while Mitel Semiconductor achieved an increase in revenue of 77 percent to $558 million, due mainly to the previous year's Plessey acquisition.

Earnings, however, could not keep pace with the growth in revenues, and the Company reported adjusted net income totaling $80.2 million or $0.67 per share this year, compared to an adjusted net income of $93.8 million or $0.84 per share in Fiscal 1998.

ACQUISITIONS — THE YEAR AFTER → A significant portion of overall growth last year came as a direct result of our acquisitions; GEC-Plessey Semiconductors Group ("Plessey"), and portions of Centigram's and Gandalf's operations for our Systems business. Following this kind of rapid expansion, we discovered that we could not sustain our target levels of profitability without taking certain measures to strengthen our balance sheet and adjust our business model accordingly.

The measures we took sought better alignment between the values of our acquired assets and the rapidly changing technological and competitive dynamics of our industry. So, we accelerated the amortization of recently acquired intangible assets, and decided to discontinue certain operations, resulting in a total charge of $54 million by the end of the year.

Although these charges lowered this year's earnings, we improved our future prospects of profitability and also enhanced our financial ability to seize new growth opportunities.

PLAYING IN A NEW LEAGUE → As we passed and exceeded by 30 percent the $1 billion mark in yearly revenues, and topped the one million threshold in annual PBX line shipments for the first time in the Company's history, Mitel entered a new phase. We have started to feel, as the following examples illustrate, a heightened competitive spirit: we now press harder for greater market share, winning new accounts and seizing emerging opportunities.

In the United States, Bass Hotels & Resorts endorsed Mitel systems as the communications backbone for all of its North American small and mid-sized lodging properties including Holiday Inn, Holiday Inn Express, and Crowne Plaza.

Ernst & Young LLP — one of the world's leading business advisors — chose Mitel over all other contenders to spearhead its major communications upgrade in the United Kingdom. Made after an exhaustive tender and selection process, the deal will improve communications for 6,500 Ernst & Young UK staff.

Energized and extended by last year's acquisition of Plessey, Mitel Semiconductor made a variety of major market wins with best-of-class integrated circuits that take system-level integration to a new level of miniaturization... and economy.

With increased sales and major market wins across the product portfolio, Mitel is playing in a whole new league. We offer our shareholders participation in a company of greater size, with bigger markets and wider technological reach. We offer our customers a greater variety of products. We offer our employees the challenge of competing in a league where the potential rewards are higher, and where all the players are tough and tested.

FOCUS AND VIGILANCE → As we fix our sights on becoming a $2 billion company — the next great milestone — we must adjust our values and actions to get there profitably.

The most important element of our transition is to become even more market-focused and customer-driven than we are now. While technological ingenuity is what we sell through our products, our continued success is more dependent now on our ability to create and sustain distinctive competitive advantage. To do so, we have undertaken a number of critical initiatives that we call Strategic Imperatives:

Establishing our Strategic Directions: to guide our efforts and creativity on a continuous basis — instead of at distant periodical intervals, and to position the Company for the future with clearer vision and sharper focus,

Targeting our Product Portfolios: to review all our product- and market-development programs and concentrate our investments, rapidly and decisively, in the fastest growing or most lucrative industry sectors,

Enriching our Human Capital: to attract and retain critical executive and professional talent to augment our own growing capabilities so we can play in this new league with the strongest possible team,

Seeking Alliances and Partnerships: to find and recognize allies with complementary skills, technologies and markets, allowing Mitel to accomplish more with less, and

→ Innovating Our Way Forward: While technological innovation is central, its commercial success relies on innovation in every aspect of the Company, from manufacturing and marketing to customer service, finance and human resources. This will be the unifying force for Mitel.

THE RIGHT TALENT IN THE RIGHT PLACE → Following the appointment to the Board last July of Mitel's new President and CEO, two other changes to the Board occurred last year. In line with our growing interests in semiconductors and microelectronics, we welcomed André Borrel to the Board of Directors. Mr. Borrel, based in Europe, brings extensive global business management experience in the semiconductor field. In addition, Jean-Jacques Carrier, Senior Vice President, Finance and CFO, and Don McIntyre, Senior Vice President, Human Resources, General Counsel and Secretary, also joined the Board during the year.

At the end of the fiscal year, we welcomed Moris Simson as our newest Senior Vice-President in charge of Mitel's strategy and corporate development. Mr. Simson, who is also the Chief Technology and Marketing Officer of Mitel, will play a key role in the enunciation and execution of our strategic imperatives.

FROM POSSIBILITY TO PERFORMANCE → After a year of growth and adjustment, Mitel is strongly positioned to seize emerging opportunities within an increasingly dynamic and competitive communications marketplace. With in-house capabilities over a wide range of products — from microelectronic hardware components to software-rich enterprise communications systems — the Company is ready to perform.

The pages which precede offered insight into what we consider to be the key drivers of communication activity in the opening years of the new century. Each is a trend with increasing importance in the marketplace, and each highlights an opportunity that Mitel last year readied itself to exploit.

Drawing on the uncommon dedication and professionalism of our employees, we are increasingly confident that the years ahead will allow us to unlock the value of our acquisitions, take our spirit of innovation to new heights, and deliver to shareholders the returns they expect and deserve.

Kirk K. Mandy → President & CEO

Dr. Henry Simon · Chairman of the Board

The Mitel product portfolio: highlights from '99

This year, Mitel once again demonstrated innovative leadership in product development — excellence recognized by several prestigious industry awards:

In Mitel Communications Systems, Mitel Call Center Commander™ was named Call Center, Customer Interaction Management Product of the Year by CTI Magazine and Server-based Call Control/ Routing Product of the Year by C@ll Center Solutions Magazine. Mitel's XpressOffice™ was named Remote Access Product of the Year by C@ll Center Solutions Magazine.

In Mitel Semiconductor, the Mitel 4-channel vertical cavity surface emitting laser (VCSEL) and PIN arrays won Fiberoptic Product News' Technology Award of the Year for laser and light sources at this year's Fiber Optic Conference in San Diego. The Mitel Planet chip set won a 1998 Wireless Design & Development Magazine award in the Active Components category. In addition, the MT90500 SAR was named as one of the top 10 communications products of the year by the 1999 Cahner's Electronics Industry YearBook, and as one of the Top 100 Hot Products of 1998 by EDN Magazine.

The following product highlights from the Systems and Semiconductor lines of business offer important insight into the nature of Mitel's competitive advantage in the global communications marketplace.

MITEL COMMUNICATIONS SYSTEMS

Last year, Mitel Communications Systems continued to anticipate and meet the needs of small- to medium-sized enterprises, enabling them to employ the most current technology to streamline their business operations.

Mitel expanded its family of innovative voice solutions for small businesses last year. The Company introduced the SX-200™ EL, a telephone system delivering robust functionality at cost-effective prices for customers requiring 30 to 500 phone lines. Coupled with the SX-200 ML for the under-100 line market, the SX-200 EL strengthens Mitel's ability to continue meeting the needs of small-enterprise customers requiring switching platforms with advanced technology.

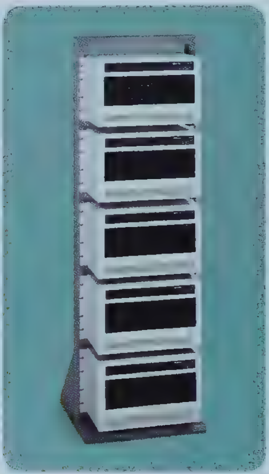
Mitel also introduced Mitel Express Messenger™ a cost-effective voice-mail application for the small business market that combines robust functionality and superior ease-of-use. The first voice-mail-on-a-card application for Mitel SX-200 PBXs, Mitel Express Messenger provides users requiring 40 to 150 lines with advanced messaging capabilities.

Mitel launched the SUPERSET™ 4000 Series of telephone sets to help customers capitalize on the advanced capabilities of Mitel PBXs. The Superset 4000 Series represents the next generation of Mitel's programmable softkey technology.

The Company launched the SX-2000™ for Windows NT, the first single-box solution to provide full-featured, inte-

XpressConnect 5254

SUPERSET 4150



SX-200 EL

Call Center Commander interface

SMarT-1 ISDN

SX-2000 for Windows NT

grated telecommunications functionality on a Microsoft NT server. The SX-2000 for Windows NT provides businesses with a unique, high-value alternative to traditional purpose-built PBXs and not-yet-proven non-PBX solutions.

To the suite of call center solutions, Mitel added Mitel Call Center Commander™, a comprehensive suite of applications that help traditional call centers evolve to advanced customer interaction centers (ACICs). With Commander, customer e-mail, faxes and Web inquiries are handled as easily as phone calls.

In the operations management arena, Mitel continued to deliver OPS Manager, an application that runs on an open platform and allows users to communicate via Simple Network Management Protocol (SNMP), enabling them to capitalize on SNMP's ability to converge voice and data networks.

With last year's release of directory services integration for voiceLAN solutions, Mitel was first to bring an industry-standard LAN to the voice domain. This release utilizes the industry-standard Lightweight Directory Access Protocol (LDAP) to enable enterprises to include the voice domain in their directory-services strategies.

Demand for Mitel's 'office-in-a-box' communication system Kontact™ continued to grow in the UK market. Kontact is meeting the needs of small- to medium-sized enterprises and the retail sector by combining voice and data in a single, cost-effective ISDN-based remote-access product. It is the most converged product available on the market.

Also popular in the UK was the iMAGINATION™ product line, a suite of offerings acquired with Mitel's purchase of Telecom Sciences Corp. that complements Mitel's flagship SX-2000 product line.

To the advanced messaging market, Mitel introduced OnePoint Messenger™, the industry's first brandable unified messaging product that makes it easier for OEMs to leverage their strong brand identity. The channel partners will integrate OnePoint Messenger-Exchange systems to meet their customer-specific requirements.

In the field of alternate-network and remote access, Mitel continued development of Smart-1™ Call Controllers, residential and fax-over-Internet dialers which automatically route customers' outgoing calls and faxes.

MITEL SEMICONDUCTOR

MITEL SEMICONDUCTOR > Mitel Semiconductor is among the world's top ten telecom integrated circuit (IC) suppliers serving customers ranging from Ericsson, Alcatel and NEC to Cisco, General Instruments and Intel.

COMMUNICATIONS > Mitel provides solutions that shape, signal, transport and switch real-time voice and data traffic converging on digital public networks, Internet, cable and optical networks.

TELEPHONY > Mitel reinforced its position as the leader in Caller ID receivers with two new products. The MT88E39 addresses requirements of the European line-powered phone and DECT (digital enhanced cordless telephones) base station markets. The MT88E45 serves the high-growth 900MHz cordless phone market, and improves performance to CIDCW (Caller Identity on Call Waiting) services.

WAN INTERNETWORKING > Mitel continued its innovative leadership in the development of real-time network ICs with the introduction of the MT90220 and MT90221 ATM Inverse Multiplexers, the world's first IMA devices to meet the ATM-Forum standard. ATM is a key underlying technology for integrated, wide-area-network access services in which voice, video and internet are delivered to the home, business and government.

For T1, E1 and J1, the world's most predominant wide area network infrastructures, the company introduced the MT9074 T1 Combo Framer. This device combines a framer and a line interface unit (LIU) in a single package which meets all worldwide standards.

Mitel introduced a trio of new time-division-multiplex (TDM) switches: the MT90823 large digital switch, the MT90826 quad digital switch, and the MT90863 rate conversion digital switch. These devices are used in PBXs, switching and multiplexing equipment and central offices.

Mitel launched two acoustic echo-cancellation solutions. The MT9315 delivers clear communication for hands-free cellular-phone users, while the MT9300 eliminates echo in wireless systems and data networks such as the Internet and Frame Relay.

WIRELESS ACCESS > Mitel maintained a market leading position in wireless access with the continued development of its line of keyless-entry product ICs. The growing use of wireless devices, such as mobile handsets, has increased the number of interfering signals in the air. Mitel's range of keyless entry products offer outstanding interference immunity capabilities to enable high performance solutions.

Mitel's Planet chip set, a full processor-to-antenna suite for Code Division Multiple Access (CDMA) dual-mode cellular phones, continued to sell widely, as did the Waverider, a wireless LAN chip set which provides the highest throughput at the lowest cost of any solution in the industry.

MT90823AG chip

MT88E45AS chip

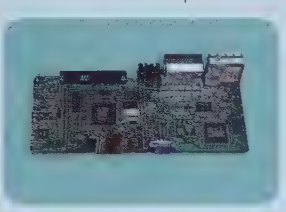
MT90220AL chip

COMMUNICATIONS SLI SOLUTIONS → Mitel's system-level integration (SLI) unit integrates advanced intellectual property (IPR) to serve the emerging SLI market. We have developed our SystemBuilder™ ASIC library to provide customers with low risk and a fast time-to-market for communications applications.

Mitel expanded SystemBuilder with Firefly™, an embedded microcontroller engine that enables customers to develop systems without prototype silicon.

We also licensed USB, PCI and Firewire cores, providing options for integrating high-speed bus interface connections into ASICs for computing, networking and communication applications. Mitel began development of 0.18 micron ASIC and ASSP capability, planned for launch in Q3 1999.

Digital satellite set-top box with SNIM3 chip set



Opto connector

Duplex device

HOME GATEWAY → Mitel continues to be the leading global supplier of tuners and RF components to manufacturers of set-top boxes, delivering Internet access, voice, video and multimedia to small office and home office users.

SNIM3, our recent addition to home gateway solutions, is a complete solution for digital tuning in satellite set-top boxes. SNIM3 effectively serves the high-growth DSS and DVB markets with a production-ready design that eases manufacturing for Mitel's OEM customers.

OPTOELECTRONICS → Mitel expanded its broad range of light emitting lasers, diodes and other leading optical ICs: The 1A466, the industry's first commercially available resonant-cavity LED (RCLED) for applications based on plastic optical fiber; a high-speed MT-RJ Small Form Factor (SFF) interface designed for Fiber Channel and Gigabit Ethernet transceivers; and a pair of Vertical Cavity Surface Emitting Lasers (VCSELs) for high-speed datacom applications.

MEDICAL → The high cost of medical care is generating an ever-expanding set of opportunities for microelectronics-based products that reduce health-care costs and improve quality of life. Capitalizing on the integration of its IC design and fabrication technologies, the company is a world niche-leader for ultra-low power, high reliability medical ASICs used in pacemakers, hearing aids and monitoring equipment.

Manufacturing was centralized in the Plymouth and Bromont facilities last year to lower product costs and increase capacity. We also initiated the development of a new ultra-low-power, 8 inch 0.35 CMOS micron process that will enable miniaturization, low power and high performance needed in the medical microelectronics market place.

For more information about Mitel's extensive product portfolio, visit our website → **www.mitel.com**

Glossary of terms

ASYNCHRONOUS TRANSFER MODE (ATM) → A fast packet switching technique by which short packets or cells containing data, voice or video signals are moved over networks at high speed.

CALL CENTER → A traditional call center is a place where calls are answered and calls are made, typically with the aid of automatic call distribution and order-processing systems. A host of exciting new applications will transform the traditional call center into an Advanced Customer Interaction Center (ACIC). ACICs enable sophisticated data collection and intelligent routing of voice calls, faxes, e-mail and Web requests.

CODE DIVISION MULTIPLE ACCESS (CDMA) → A form of digital cellular phone service. A technology that assigns a code to all speech bits, sends a scrambled transmission of the encoded speech over the air and reassembles the speech to its original format. Benefits are increased capacity and more efficient use of spectrum.

COMBO FRAMER → An integrated T1/E1 transceiver circuit with combination digital framer and analog line interface unit (LIU). This standard compliant device transmits and receives data at 1.544Mb/s or 2.048Mb/s over transmission lines. Traditional market is high-speed data transmission between central office and PBX, but a new class of markets has emerged recently: wireless base-stations, central office to ISP (Internet Service Provider), remote LAN access, and HDSL terminal units. An example of a combo framer is Mitel's MT9074 T1/E1/J1 long haul combo framer.

CONNECTIVITY → Property of a network that allows dissimilar devices to communicate with each other.

CONVERGENCE → The evolution towards a communications environment in which voice and data can be routed along the same pathways.

FAX OVER IP → The transmission of facsimile signals over Internet Protocol.

IP → Internet Protocol. A standard describing software that keeps track of the Internetwork addresses for different nodes, routes outgoing messages, and recognizes incoming messages. IP allows a packet to traverse multiple networks en route to its final destination.

LEGACY SYSTEMS → All communications equipment a company owns, inherited over the years. Legacy systems typically are upgraded since abandoning them altogether is too costly.

MICRON → One thousandth of a millimeter or one millionth of a meter. A unit of measurement used to specify the width of an integrated circuit.

MIGRATION → The transition from one technology system to another.

REMOTE-ACCESS DEVICES → Communications devices that permit transmission of data to and from a central computer through PC connections to telephone lines.

RF → Electromagnetic energy whose wavelengths exist between sound and light, usually between 500 KHz and 300 GHz.

SHAPING → Shaping is the monitoring, manipulation and control of information transmission rate to ensure that a user does not violate the negotiated 'Quality of Service' for this connection.

SIGNALING → Information used by and exchanged between telecommunications equipment which controls and manages the transport of subscriber information (voice, data or video) across the network ensuring delivery from originator to recipient. Also used for network maintenance purposes. 'Touch-tone' dialing tones used to inform the telephone company of a desired telephone call connection is a simple example of signaling.

SWITCHING → A function performed by specialized telecom equipment which allows the connection of any subscriber to any other subscriber on a telecommunications network. A necessary function without which telecom networks would be unmanageable.

T1/E1/J1 → Digital transmission-device specifications used for information transport over twisted pair cabling (and coaxial cable for E1). T1 is the standard used in the US & Canada, J1 is used in Japan, and E1 is used in most other countries. Transmission bits rates are 1.544 Mb/s for T1 & J1 (with 24 user channels) and 2.048 Mb/s (30 user channels) for E1.

TDM → Time Division Multiplex. A technique for transmitting separate data, voice and video simultaneously over one communications medium.

TRANSPORT → Also known as Transmission. Encompasses the sending of information across a distance by wire (twisted pair or coaxial cable), fibre optic cabling or wireless (radio) techniques.

UNIFIED MESSAGING → Software that integrates voice, fax, e-mail and multimedia messaging.

VOICE OVER IP → The movement of voice traffic over an Internet Protocol network.

WAN → Wide Area Network. A data network that extends a local area network (LAN) outside an office building over telephone common-carrier lines to LANs in remote buildings often located in distant cities.

Acknowledgements: Newton's Telecom Dictionary, Mitel personnel.

financial review

The following discussion and analysis explains trends in Mitel's financial condition and results of operations for the fiscal year ended March 26, 1999 compared with the two previous fiscal years. This discussion is intended to help shareholders and other readers understand the dynamics of Mitel's business and the key factors underlying its financial results. The consolidated financial statements, notes to the consolidated financial statements and supplementary information constitute an integral part of and should be read in conjunction with this management's discussion and analysis. Readers may wish to make reference to the glossary of terms on page 22 of the Annual Report to assist in their understanding of this discussion. Net income for the three fiscal years ended March 26, 1999, March 27, 1998 and March 28, 1997 as determined by U.S. accounting principles is detailed and discussed in note 25 to the consolidated financial statements.

OVERVIEW OF RECENT SIGNIFICANT EVENTS

Mitel has completed four acquisitions since August 1997. Two acquisitions occurred during Fiscal 1998 and the others were completed midway through the first quarter of Fiscal 1999. The most significant transaction occurred on February 12, 1998 when Mitel acquired GEC-Plessey Semiconductors Group ("Plessey"), an international semiconductor company serving primarily the communications and media markets. The other acquisitions related to the Mitel Communications Systems ("Systems") business group. The acquisitions by the Systems group centered on remote access technologies, advanced voice and unified messaging solutions, and ISDN business products for the small-to-medium enterprise market. Mitel is focused on integrating and streamlining these new businesses to accelerate its strategy of providing new products for the convergence of telephony, data, and other media technologies.

The Plessey operations included a business segment known as the Lincoln Power and Automotive ("Lincoln") group. Management began an evaluation of Lincoln's operations at the time of acquisition in light of its position outside Mitel's strategic focus on communications. Following an extensive strategic review of Mitel's semiconductor operations, management formalized a plan at the end of Fiscal 1999 to sell or otherwise exit the Lincoln operations. Accordingly, Lincoln was reclassified as a discontinued operation in the fourth quarter of Fiscal 1999 and will continue to be reported as such until the group is sold as a going concern or otherwise disposed of, an event which management expects to occur within the next twelve months.

During the fourth quarter of Fiscal 1999, Mitel revised its estimated amortization periods for intangible assets, consistent with evolving industry practices. Such measure will allow Mitel's assets to be in better alignment with the technological and competitive dynamics of the communications industry. Management regularly reviews the estimated useful lives of the acquired intangibles in addition to any related asset impairment. Management believes the reduced amortization time period, to two years from the previous estimate of five to fifteen years, better reflects the estimated time to market advantage achieved by the recent acquisitions.

During the fourth quarter of Fiscal 1999, Mitel also implemented certain rationalization plans, described elsewhere in this management's discussion and analysis, and realized gains related to the sale of certain semiconductor technology assets. The net pre-tax charge to Mitel's operations as a result of these actions amounted to $10.1.

On July 23, 1998, Mitel repaid $123.1 against the U.S. dollar term loans incurred in connection with the Plessey acquisition. The repayment was required under terms of the associated credit agreement as proceeds of $172.0 were received from an equity offering. Accordingly, a proportionate amount of the related deferred debt issue costs and deferred foreign exchange losses was recorded as additional interest expense in the second quarter of Fiscal 1999. This non-cash expense reduced net income from continuing operations by $7.2, or $0.06 per share.

RESULTS OF OPERATIONS

Mitel's business is global and comprises the design, manufacture and sale of networked systems and specialty semiconductor products for the communications industry. Mitel operates through two reportable business segments – Mitel Communications Systems and Mitel Semiconductor ("Semiconductor"). Mitel sells its products through both direct and indirect channels of distribution. Factors affecting the choice of distribution, among others, include end-customer type, the level of product complexity and integration requirements, the stage of product introduction, geographic presence and location of markets, and volume levels. Mitel's strategy is centered on developing strong microelec-

tronics technology and advancing people-to-people communications in an open, distributed and standards-based environment.

MITEL COMMUNICATIONS SYSTEMS → provides enterprises with voice and data communications systems; complete private networks, including remote teleworking solutions; unified messaging and call-center applications; CTI systems and applications; and it also supplies competitive carriers with public network access products. All of Mitel's service revenue relates to Systems.

MITEL SEMICONDUCTOR → provides connectivity solutions for the communications and medical industries with a product range which includes components for both wired and wireless networks; microelectronics for enabling the convergence of voice and data; optoelectronic devices for high-speed Internet systems; and, also, applications-specific integrated circuits ("ASICs") for medical applications such as pacemakers and hearing-aids.

Mitel's revenue reached a record high in Fiscal 1999 due to recently acquired businesses and to strong Systems sales in Europe and North America. Total revenue grew by 49 percent from Fiscal 1998. By business group, Semiconductor revenue from continuing operations grew by 77 percent and Systems revenue was up 33 percent from the previous year. The Semiconductor growth rate was mainly attributable to the inclusion of sales of the former Plessey group, which was acquired in the fourth quarter of Fiscal 1998, for the full fiscal year in 1999. Higher sales volumes of PBX systems, telephone sets and alternate network access products and the effects of consolidating recent acquisitions drove the Systems revenue growth.

Adjusted Net Income excludes the impact of amortization of acquired intangibles, special charges (net), non-cash debt issue and other costs expensed on an early partial debt repayment, and discontinued operations. Although not a substitute for net income or net income per common share, management utilizes Adjusted Net Income and Adjusted Net Income per common share as a supplementary measure to assess financial performance.

NET INCOME → The lower net income in Fiscal 1999 compared to Fiscal 1998 was primarily due to incremental amortization charges of $14.7, or $0.13 per share, arising from revisions in the estimated useful lives of acquired intangibles to better reflect the time to market advantage expected by management from the related acquisitions. In addition, Mitel recognized an estimated loss of $16.3, or $0.14 per share, on the planned disposal of the Lincoln operations, upon adoption of a formal plan to exit that business segment. Mitel also implemented plans in the fourth quarter of Fiscal 1999 to rationalize certain of its Systems operations, partially offset by a gain on the sale of certain non-strategic technology and other assets to result in a net charge of $10.1, or $0.09 per share. Net income was also negatively impacted in Fiscal 1999 due to a charge to continuing operations of $7.2, or $0.06 per share, representing a proportionate amount of debt issue and other costs expensed in connection with an early partial debt repayment in the second quarter of Fiscal 1998. The early repayment was required to be made under the terms of a credit agreement out of the proceeds received from the July 1998 equity offering.

[millions of Cdn dollars]	**1999**	1998	1997
Consolidated revenue	**$1,310.4**	$ 881.4	$ 695.5
Systems segment revenue	**$ 752.7**	$ 566.8	$ 474.5
Semiconductor segment revenue	**$ 557.7**	$ 314.6	$ 221.0
Net income from continuing operations	**$ 40.5**	$ 92.0	$ 38.0
Net income per common share from continuing operations	**$ 0.33**	$ 0.82	$ 0.32
Net income	**$ 26.2**	$ 91.9	$ 38.0
Net income per common share	**$ 0.20**	$ 0.82	$ 0.32
Adjusted Net Income	**$ 80.2**	$ 93.8	$ 51.7
Adjusted Net Income per common share	**$ 0.67**	$ 0.84	$ 0.45

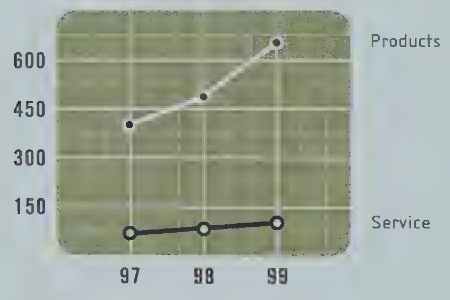
ADJUSTED NET INCOME → Adjusted Net Income, as defined above, was lower in Fiscal 1999 than in Fiscal 1998 by $13.6, or $0.17 per share. The reduction in Adjusted Net Income was due to increased interest expense of $20.0, or $0.18 per share, on the syndicated term loans entered into to acquire Plessey, the effects of reduced semiconductor sales in the Asia/Pacific region, increased amortization and excess capacity associated with the additional Plessey microelectronics fabrication facilities ("fabs"). Adjusted Net Income per common share was also negatively impacted by a higher number of weighted average common shares outstanding. Mitel issued 8 million additional shares through an equity offering in July 1998. These factors, which contributed to the lower Adjusted Net Income, were partially offset by the strong Systems performance in North America and Europe.

Unless otherwise noted, the following discussion pertains to Mitel's continuing operations.

REVENUE – Business segment review

MITEL COMMUNICATIONS SYSTEMS →

SYSTEMS REVENUE [millions Cdn$]



Compared to Fiscal 1998, Systems product revenue in Fiscal 1999 increased by 35 percent, from $484.8 to $652.9, due to higher sales volumes of SX-2000 and SX-200 systems, including the associated pull-through of system sets, increased shipments of alternate network access products and additional revenues from the advanced messaging and ISDN PBX businesses acquired in the first quarter of Fiscal 1999.

U.S. indirect channel sales benefited from increased demand by the small to medium sized business segment for Mitel's SX-200 ML and SX-200 EL switches. In addition, Mitel launched a new line of telephone sets in early Fiscal 1999 that also produced additional revenue. U.S. direct channel sales benefited from increased installations of new systems as well as from upgrades in the existing customer base.

With respect to Europe, sales increased in Fiscal 1999 due to strong growth in new system sales and system upgrades sold to the installed base, and to continued higher demand for Mitel's alternate network access products. Service revenue grew mainly due to the managed service business in the United Kingdom where telecom product-related services are channeled through outsourcing companies.

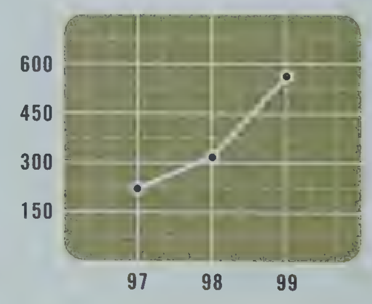
Systems sales into the Asia/Pacific region continue to be adversely affected by the ongoing effects of weakened economies and intense price competition in that region.

In proportion to total revenue, Systems service revenue decreased to 8 percent of total revenue compared to 9 percent of total revenue last year. This decrease is mainly due to the effects of consolidating Plessey which is comprised of only product revenue. Management expects that service revenue, as a percentage of total revenue, will continue to decrease in future periods due to the growing significance of product sales in relation to total sales.

Fiscal 1998 total Systems revenue increased by 19 percent to $566.8 from Fiscal 1997's revenue of $474.5. The revenue growth was due to increased demand for alternate network access products, higher SX-2000 and SX-200 sales through the U.S. indirect channel and incremental sales of remote access products.

MITEL SEMICONDUCTOR → As a percentage of total revenue, semiconductors accounted for 43 percent, 36 percent and 32 percent, respectively, in fiscal years 1999, 1998, and 1997.

SEMICONDUCTOR REVENUE [millions Cdn$]



Semiconductor revenue from continuing operations in Fiscal 1999 increased by 77 percent from Fiscal 1998 principally due to the effects of consolidating the operations of Plessey, acquired in the fourth quarter of Fiscal 1998. Management believes the Plessey acquisition has significantly enhanced Mitel's operations, technologies and product portfolio. The Plessey acquisition also provided Mitel with enhanced market penetration in Europe, resulting in an increase in total revenues generated in Europe by 50 percent from last year. This acquisition also had the effect of reducing the proportion of total revenue recorded in the United States from 46 percent in Fiscal 1998 to 45 percent in Fiscal 1999.

Excluding the growth resulting from the Plessey acquisition, Mitel has experienced certain pricing pressures in addition to reduced demand from the Asia/Pacific region and other emerging regions, such as Latin America and Eastern Europe, due to the prevailing adverse local economic conditions (see further discussion under "Other"). This recent decline and the additional manufacturing capability acquired from Plessey combined to result in excess capacity in Mitel's fabs. Management undertook a strategic review of its operations and is taking the steps necessary to consolidate the capacity levels to achieve better utilization of the fabs and to realize the synergies in the combined semiconductor operations. When Mitel acquired Plessey, the Company recorded provisions of $45.2 in respect of integration costs. The integration costs related to initial estimates to exit the Lincoln Power and Automotive business segment, the transfer of redundant production activities from Sweden to Plymouth, U.K., and to severance costs for redundancies in the acquired semiconductor segment throughout the world.

At the end of Fiscal 1999, following the completion of Mitel's semiconductor strategic review, Mitel adopted a formal plan to pursue divestiture opportunities related to the distinct and non-core operations of Lincoln, either by sale as a going concern or by closing the operations. Accordingly, the operations related to this business were accounted for as discontinued operations. An additional estimated after-tax loss of $16.3 on the expected and ultimate disposal of Lincoln was recorded in the fourth quarter of Fiscal 1999.

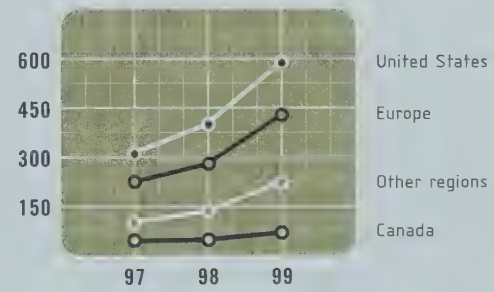
In May 1999, Mitel reached an agreement with the relevant Swedish Trade Unions concerning the transfer of all semiconductor CMOS manufacturing operations from Sweden to Mitel's other more technologically advanced fabrication sites. The proposed transfer affects approximately 200 employees in Mitel's plant in Järfälla, Sweden with the program expected to be completed within the next twelve months. The Swedish operation will operate as an IC fabless facility focused on the design, marketing and sales of ASICs and as a manufacturer and marketer of optoelectronic devices.

Mitel continues to evaluate the adequacy of its integration and redundancy provisions through the implementation process of realizing synergies and integrating recently acquired businesses.

Fiscal 1998 Semiconductor revenue increased over Fiscal 1997 by 42 percent as a result of increased demand for the Company's integrated circuits and thick film hybrid products, primarily in the U.S. and Asia/Pacific regions, and the effects of consolidating Plessey midway through the fourth quarter of Fiscal 1998.

GEOGRAPHIC REVENUES → Revenue during the last three fiscal years, based on the geographic location of Mitel's customers, was distributed as follows:

REVENUE [millions Cdn$]



For the year ended March 26, 1999, the net movement in exchange rates from Fiscal 1998 favorably impacted total revenue by 4 percent ($54.1) primarily as a result of changes in the U.K. pound sterling and U.S. dollar exchange rates. Fiscal 1998 revenue was favorably impacted by 2 percent ($19.4) as a result of changes in the U.K. pound sterling and U.S. dollar exchange rates.

UNITED STATES → Sales into the United States (1999 – $589.1; 1998 – $404.1; 1997 – $312.6) increased by 46 percent in Fiscal 1999 over Fiscal 1998. The increase was due, in part, to higher SX-2000 systems and associated sets sales and to higher voice messaging solutions

revenue resulting from the acquisition of Centigram Communications Corporation's Customer Premise Equipment business in May of 1998. Higher Semiconductor revenue also contributed to the growth in this region as a result of including a full year of sales in Fiscal 1999 from the former Plessey operations.

Sales increased by 29 percent in the United States in Fiscal 1998 over Fiscal 1997 principally due to the Systems business. Higher SX-2000 and SX-200 system sales through the indirect channel and the effects of consolidating sales resulting from the August 1997 acquisition of Gandalf Technologies Inc.'s remote access business drove most of the increase.

EUROPE → European sales (1999 – $428.6; 1998 – $286.6; 1997 – $228.8) increased by 49 percent in Fiscal 1999 over Fiscal 1998 due to the effects of including a full year of the former Plessey group's results. Systems revenue in this region increased on higher alternate network access products sold to long-distance carriers and to higher shipments of SX-2000 and SX-200 systems in the United Kingdom.

Fiscal 1998 revenue into Europe increased by 25 percent over Fiscal 1997 on higher alternate network access sales, higher PBX system sales, and to the effects of consolidating Plessey towards the end of Fiscal 1998.

CANADA → Canadian sales (1999 – $71.1; 1998 – $53.7; 1997 – $50.0) increased by 32 percent in Fiscal 1999 over Fiscal 1998 on higher Semiconductor sales from the former Plessey operations and to higher SX-200 and sets sales in the Systems group.

The sales increase in Canada from Fiscal 1997 to Fiscal 1998 was 7 percent.

OTHER REGIONS → Sales into Other Regions (1999 – $221.6; 1998 – $137.0; 1997 – $104.1) increased by 62 percent principally due to higher Semiconductor sales into the Asia/Pacific region which more than offset lower system sales in that area.

Fiscal 1998's increase of 32 percent in sales into Other Regions over Fiscal 1997 was due to higher IC sales in Asia/Pacific and to the effects of consolidating Plessey mid-way through the fourth quarter of Fiscal 1998.

GROSS MARGIN

As a percentage of total revenue, total gross margin was 46 percent in Fiscal 1999, and 48 percent in Fiscal 1998 and Fiscal 1997. The lower Fiscal 1999 gross margin was negatively impacted by a higher proportion of manufacturing asset amortization expense driven by the recently acquired fabs, in addition to reduced margins in some Semiconductor products and to certain unfavorable manufacturing variances resulting from the fabs' excess capacity. The positive impacts of higher sales volumes of Systems products helped to reduce the negative impact of lower semiconductor margins.

The Fiscal 1998 gross margin remained stable relative to Fiscal 1997. The positive impact of higher sales volumes in Systems and Semiconductor products and of efficiency improvements in systems integration services helped to offset lower average selling prices in certain Systems products in Fiscal 1998.

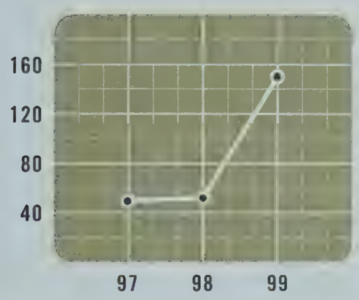
OPERATING EXPENSES

SELLING AND ADMINISTRATIVE → Selling and administrative ("S&A") expenses from continuing operations in Fiscal 1999 were $332.9, or 25 percent of sales, compared with $246.0, or 28 percent of sales, in Fiscal 1998. In Fiscal 1997, S&A expenses were $220.9, or 32 percent of sales. S&A expenses from continuing operations decreased as a percentage of sales primarily due to revenue growth and the inclusion of the former Plessey operations where S&A expenses as a percentage of sales were lower than Mitel's historical average. The improvement was partially offset by the effects of consolidating the recently-acquired advanced messaging and ISDN PBX businesses.

Fiscal 1998 S&A expenses from continuing operations decreased as a percentage of sales from Fiscal 1997 primarily due to strong revenue growth, spending restraints applied to marketing programs, higher efficiencies and focus in the sales channels and reduced corporate overhead costs. The improvement was partially offset by the effects of integrating the former Plessey operations and the other acquired remote access technology businesses.

RESEARCH AND DEVELOPMENT ("R&D") → R&D expenses from continuing operations amounted to $149.8, or 11 percent of revenue, for the year ended March 26, 1999. This compares to $52.0 and $50.0, or 6 and 7 percent of revenue, in the respective fiscal years of 1998 and 1997. These amounts were net of $23.7 (1998 - $40.7; 1997 - $11.9) in R&D government assistance, including ITCs. R&D increased due to the inclusion for a full fiscal year of the results of operations of the former Plessey group where R&D as a percentage of sales was higher than Mitel's historical average, and to higher spending in Mitel's other semiconductor operations.

R&D EXPENSES [millions Cdn$]



SPECIAL CHARGES (NET) → During the fourth quarter of Fiscal 1999, Mitel recorded a net pre-tax special charge of $10.1 comprising actions to rationalize certain aspects of the Systems group, net of a gain arising from the sale of certain non-strategic technology and other assets. The Systems actions reflected efforts to streamline North American and European sales channels, and to transfer the network access product manufacturing operations from North America to the United Kingdom, where the majority of the sales are generated. Also included in the charge was the cost of severance and related benefits, with the majority of the reduction taking place in the North American and Far East regions. Approximately 100 people are to be terminated as part of this rationalization program. All of these activities are expected to be substantially completed by December 1999. As at March 26, 1999, $4.5 of severance, benefits, facilities and other costs had been paid.

AMORTIZATION OF ACQUIRED INTANGIBLES → Amortization of acquired intangibles increased in Fiscal 1999 to $22.4 from $1.8 in Fiscal 1998. The estimated useful life of acquired intangibles was reduced to two years from an average of five to fifteen years to better reflect the estimated period of advantage achieved by Mitel's recent acquisitions, and to be in line with evolving industry practices. The revision of the estimated useful life accounted for $14.7 of the total increase. The remainder of the increase over Fiscal 1998 resulted from the advanced messaging and ISDN PBX businesses acquired in the first quarter of Fiscal 1999.

INVESTMENT AND INTEREST INCOME

Investment and interest income was $5.9 for the year ended March 26, 1999 as compared to $5.7 in Fiscal 1998 and $9.6 in Fiscal 1997. Average cash balances and interest rates remained relatively stable to result in only a minor increase in interest income over last year. The Fiscal 1998 decrease from Fiscal 1997 was due to a gain realized from the sale of a non-strategic investment in Esprit Telecom (Jersey) Ltd. ("Esprit"). Esprit was sold in Fiscal 1997 for cash proceeds of $3.7, representing a total gain of $3.6, or $2.4 after-tax.

INTEREST EXPENSE

Interest expense from continuing operations, including $7.2 of non-cash debt issue and other costs expensed in connection with the partial debt repayment described below, was $30.7 for Fiscal 1999 compared to $7.2 and $2.4 for Fiscal 1998 and Fiscal 1997, respectively. The increase in interest resulted from the term loans incurred by the Company on February 12, 1998 in connection with the Plessey acquisition. On July 23, 1998, Mitel repaid $123.1 against the U.S. dollar term loans. Accordingly, a proportionate amount of the related deferred debt issue costs and deferred foreign exchange losses from continuing operations ($7.2) was recorded as additional interest expense in the second quarter of Fiscal 1999.

INCOME TAXES

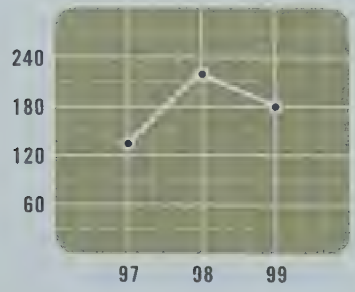
Income tax expense for Fiscal 1999 was $17.5 compared to $30.5 and $20.6 for Fiscal 1998 and Fiscal 1997, respectively. The effective income tax rate, as a percentage of pre-tax income from continuing operations, was 30 percent, 25 percent and 35 percent in Fiscal 1999,

Fiscal 1998 and Fiscal 1997, respectively. The increased effective tax rate in Fiscal 1999 was due to higher non-deductible intangible asset amortization, partially offset by permanent differences associated with European operations, lower taxes in Canada arising from higher interest costs related to the term loans, and to tax recoveries in Sweden. The Fiscal 1998 effective tax rate was lower than in Fiscal 1997 due to a lower U.K. group tax position, partially offset by higher provincial income taxes in Canada.

BACKLOG

As orders are frequently booked and shipped within the same fiscal month, order backlog is not necessarily indicative of a sales outlook for the month, quarter, or year. This is most true for Systems since manufacturing lead times for semiconductor products are generally longer because of the nature of the production process. At March 26, 1999, order backlog from continuing operations was $179.8, down from $221.3 at March 27, 1998. The decrease in backlog was attributable to a decrease in semiconductor orders arising partly from a reduction in order lead times. Most of the backlog is scheduled for delivery in the next twelve months.

BACKLOG [millions Cdn$]



Compared to Fiscal 1997, the increase in backlog of $44.7 from continuing operations at the end of Fiscal 1998 was mostly attributable to the acquisition of Plessey in the fourth quarter of that year and to increased Systems bookings.

LIQUIDITY AND CAPITAL RESOURCES

Mitel had cash, cash equivalents and short-term investment balances of $125.3 at March 26, 1999 compared to $151.7 at March 27, 1998. All of the March 26, 1999 cash balance was held in either cash or highly liquid cash equivalents. The decrease of $26.4 was mainly due to the first quarter acquisitions of the advanced messaging and ISDN PBX businesses which, together, amounted to $46.6, and charges to provisions related to integration costs for the Plessey operations, which were offset, in part, by net proceeds retained from the equity offering completed in the second quarter of Fiscal 1999.

Mitel has two term loans, respectively the AXELs[SM*] Series B loan and the Tranche A Term Loan, that were entered into on February 12, 1998 with a syndicate of banks led by Goldman, Sachs Credit Partners L.P. as the syndication agent and the Canadian Imperial Bank of Commerce as the administrative agent. The principal of the AXELs Series B loan is payable quarterly on a graduated basis over five years and matures on December 2003. The principal of the Tranche A Term Loan is payable quarterly on a graduated basis over five years and matures on February 2003. The term loans bear interest at a variable interest rate based on the lower of a defined base rate or the London Inter Bank Offer Rate ("LIBOR") plus a premium. Mitel entered into an interest rate swap to fix the base interest rate on a portion of each of the term loans. The interest rate swap is considered to be an effective hedge of the variable interest rates on the term loans. Mitel is subject to certain restrictive covenants and commitments and is required to maintain certain financial ratios for the purpose of ensuring Mitel's ability to meet its obligations under the credit agreement. The term loans are subject to mandatory prepayments out of certain insurance proceeds, and defined excess cash flow received by Mitel and in the event of asset sales (other than inventory), equity offerings or debt issuance by Mitel. Mandatory prepayments range from 75 percent to 100 percent of the net cash proceeds and would be paid on a pro-rata basis subject to certain constraints toward the senior secured term loans. Management believes Mitel is in compliance with the obligations and restrictive covenants under the credit agreement.

On July 23, 1998, Mitel, through a syndicate of underwriters, issued 8 million common shares, at a price of $21.50 per share, for total proceeds of $172.0. Net proceeds to Mitel were $164.1, of which

[SM*] AXEL is a registered service mark of Goldman, Sachs & Co.
M Mitel (design) Mitel, SX-200, SX-2000 and GX5000 are registered.

$123.1 was applied to repay a portion of the term loans. The balance of the proceeds was retained for general corporate purposes.

Cash flow from operations before working capital changes amounted to $166.3 during Fiscal 1999 compared to $125.6 in Fiscal 1998. Since March 27, 1998, Mitel's working capital, as reflected in the consolidated statements of cash flows, increased by $123.2 primarily due to higher receivables and inventory levels related to the growth in the business and payments made against the Plessey integration provisions. Mitel maintains a minimum of critical inventory to ensure continuity of supply for its manufacturing requirements. Most of the security supply inventory is carried at Mitel's semiconductor plants.

Fixed asset and other additions were $63.0 during Fiscal 1999 compared with $8.3 in the previous year, excluding additions of $22.7 and $50.9 financed by capital lease for the two respective periods. The additions were primarily related to semiconductor manufacturing capacity and technology enhancements as well as continuing improvements to Mitel's information technology resources.

Long-term debt decreased due to scheduled repayments of $9.6 and a prepayment of $123.1 against the term loans (described above).

As at March 26, 1999, Mitel's capitalization was comprised of 32 percent debt, 4 percent preferred equity, and 64 percent common equity. This compares to 49 percent debt, 4 percent preferred equity, and 47 percent common equity at the end of Fiscal 1998.

In addition to cash and cash equivalent balances of $125.3 as at March 26, 1999, Mitel has an unused revolving credit facility of approximately $110.7 (U.S.$73.5).

Management believes Mitel is in a position to meet all foreseeable business cash requirements and debt service from its cash balances on hand, existing financing facilities and cash flow from operations.

MARKET RISK

Market risk represents the risk of loss that may impact Mitel's financial statements due to adverse changes in financial markets. Mitel is exposed to market risk from changes in interest rates and foreign exchange rates. To manage these risks, Mitel uses certain derivative financial instruments including interest rate swaps, forward contracts and other derivative instruments from time to time, that have been authorized pursuant to board-approved policies and procedures. Mitel does not hold or issue financial instruments for trading or speculative purposes.

Mitel currently uses forward contracts to reduce the exposure to foreign exchange risk. The most significant foreign exchange exposures for Mitel relate to the United States dollar and the British pound. At March 26, 1999, there was a $0.2 net unrealized loss on all forward contracts, which is calculated as the difference between the actual contract rates and the applicable rate that would be used to terminate the contracts, if that became necessary. Additional potential losses in the net fair value of these contracts, assuming a 10 percent depreciation in the U.S. dollar against all currencies, at March 26, 1999, would have been approximately $5.0. Because these contracts are entered into for hedging purposes, management believes that these potential losses would be largely offset by gains on the underlying firmly committed or anticipated transaction.

Interest rate swaps are used to manage the impact of interest rate changes on earnings and cash flows and also to lower overall borrowing costs. Mitel's main exposure to interest rate risk relates to its United States dollar denominated long term debt. Mitel monitors its interest rate risk on the basis of changes in fair value. Assuming a 10 percent downward shift in interest rates at March 26, 1999, the potential loss in the net fair value of interest rate swaps and the underlying hedged debt would have been nil because these two items are equal and offsetting. Under the same assumption, the potential loss in the net change in fair value of unhedged debt would have been immaterial because substantially all of the United States dollar denominated long term debt is hedged.

In accordance with Mitel policy, cash equivalent and short-term investment balances are primarily comprised of high-grade money market instruments with original maturity dates of less than one year.

The estimated potential losses, as discussed above, assume the occurrence of certain adverse market conditions. They do not consider the potential effect of favorable changes in market factors and do not represent projected losses in fair value that Mitel expects to incur. Future impacts would be based on actual developments in global financial markets. Management does not foresee any significant changes in the strategies used to manage interest and foreign exchange rate risks in the near future.

YEAR 2000

What is referred to as the Year 2000 problem ("Year 2000 problem") is the result of computer programs being written using two digits rather than four to define the applicable year, resulting in the possibility that computer systems and products that have date-sensitive software may recognize a date using "00" as the Year 1900 rather than the Year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities. Mitel has been working on the Year 2000 problem since 1997. A dedicated Year 2000 Program Management Office ("PMO") was established in February 1998 to address compliance both externally, to our customers and suppliers, and internally for Mitel's business processes. Mitel's internal processes include network and communications infrastructure, business software applications, manufacturing, distribution, facilities management, product development, sales, finance and human resources. Management presently believes that with modifications to Mitel's existing software and hardware and conversions to new software, the Year 2000 problem can be mitigated. Despite the extensive efforts dedicated to the Year 2000 Program, there can be no assurance that all Year 2000 date compliance activities will be completed before problems associated with the Year 2000 transition potentially occur.

Mitel has completed the evaluation of its major product offerings, including current and discontinued business telephone systems, peripherals and applications. The majority of products have been classified as compliant or having compliant versions.

Mitel has established a three-phase Year 2000 Readiness Program (the "Year 2000 Program") that addresses its key internal business processes and systems. Phase I was the Initial Assessment and included an overview of Mitel and an assessment of its awareness and readiness for Year 2000. Consultants were engaged to assist with this review and with any necessary remedial plans. Phase II was referred to as the Discovery and Strategy and involved the collection and assessment of a comprehensive inventory of all internal information systems equipment as well as a detailed assessment of the suppliers deemed to be affected by the Year 2000 Problem.

The third and current phase is the Implementation and consists of conversion, testing and deployment of identified mission critical systems as well as risk and contingency management activities. Presently the majority of Mitel's identified mission critical systems are Year 2000 ready. However, a small number of remediation projects are dependent upon third-party vendor negotiations currently underway with certain specified software and hardware suppliers. The remaining remediation projects are awaiting third-party software and hardware upgrades, and are on schedule to be brought to a compliant status before the end of June 1999. Mitel has started to address its non-mission critical systems and plans to have the majority of these systems Year 2000 ready by the end of calendar 1999. The integration testing of internal systems is also planned for the spring of calendar 1999. Mitel also initiated an internal audit process under which most of its major sites are being visited to ensure corporate guidelines and procedures are consistently applied.

Under its comprehensive Vendor Management Program, initiated during Phase II of the Year 2000 Program, Mitel is actively working with its suppliers to determine the extent to which their operations and the products and services they provide are Year 2000 ready and to monitor their progress toward Year 2000 capability. The highest priority is given to suppliers that are critical to the business. The program includes awareness letters, site visits, questionnaires as well as compliance agreements and warranties. Contingency plans, such as planned increased inventory levels or substitute suppliers, are being developed to address issues related to suppliers that are not considered to be making sufficient progress in becoming Year 2000 capable in a timely manner. Mitel has also developed contingency plans to address possible changes in customer order patterns due to Year 2000 issues. Management believes that Mitel achieved its target to have all "high risk" suppliers' assessments of their Year 2000 readiness completed and to have necessary contingency plans in place by March 31, 1999. Contingency plans will be reviewed on a regular basis as Mitel learns more about its suppliers' state of readiness. Mitel also conducts on-going monitoring of local utility suppliers and is presently updating its comprehensive Disaster Recovery Plan to accommodate Year 2000 related issues.

Mitel also initiated a comprehensive Distribution Management Program in the fourth quarter of Fiscal 1999, in order to assess

the Year 2000 state of readiness of its distributors in a manner similar to its Vendor Management Program. The assessment phase is completed and contingency plans are presently being developed and should be completed by September 1999.

It is currently expected that the total incremental direct costs of the Year 2000 Program will not exceed $13.9. Approximately $7.4 has been spent on direct Year 2000 Program costs to date and was funded through operating cash flows. The program costs are primarily attributable to the purchase of new software and equipment and do not include estimates for potential litigation. As Mitel continues to assess the last phases of the Year 2000 Program, estimated costs may change.

Based on currently available information, management does not believe that the modifications and conversions discussed above, related to Mitel's internal systems or products sold to customers, will have a material adverse impact on Mitel's business, financial condition or results of operations. However, if such modifications and conversions are not made, or are not completed on a timely basis, the Year 2000 problem could have a material adverse effect on Mitel's business, financial condition and results of operations. Management believes that the most reasonably likely worst case Year 2000 scenarios would relate to third party systems rather than Mitel's internal systems or products. Mitel believes the risks are greatest with utilities (e.g. electricity supply, water), telecommunications, transportation and critical suppliers that are outside Mitel's control.

OTHER

ASIA/PACIFIC ECONOMIC RISK → The Asia/Pacific region encountered unstable local economies and significant devaluation in its currencies during Fiscal 1998 and through Fiscal 1999. This region represented 13 percent of Mitel's revenue from continuing operations for the year ended March 26, 1999 and 11 percent of revenue from continuing operations in Fiscal 1998. The majority of the Asia/Pacific sales relate to semiconductor operations. Asia/Pacific receivables, net of reserves, were approximately 2 percent of Mitel's total assets as at March 26, 1999. To the extent the Asia/Pacific region grows in importance to Mitel, or that the factors affecting the region begin to adversely affect customers in other geographic locations, Mitel's business, operating results and financial condition could be adversely affected.

FOREIGN CURRENCY TRANSLATION → Management periodically evaluates the financial and operational independence of its foreign operations and the resulting accounting classification of the foreign subsidiaries as self-sustaining enterprises. Should a foreign subsidiary cease to be classified as self-sustaining, then translation gains or losses on consolidating the foreign subsidiary's financial statements would be charged to operating income instead of a separate component of shareholders' equity.

EUROPEAN UNION AND THE EURO → On January 1, 1999, eleven of fifteen member countries of the European Union established fixed conversion rates between their existing currencies ("legacy currencies") and one common currency – the Euro. The Euro will trade on currency exchanges and may be used in business transactions. The conversion to the Euro eliminates currency exchange rate risk between the member countries. Mitel's operating subsidiaries that are affected by the Euro conversion have established plans to address the issues raised by the Euro currency conversion. These issues include, among others, the need to adapt computer and financial systems, competitive impacts of cross-border price transparency, and recalculating currency risk. Mitel does not expect any required system conversion costs to be material due to the existing ability to transact in multiple currencies. Due to significant uncertainties, Mitel cannot reasonably estimate the effects one common currency will have on pricing and the resulting impact, if any, on Mitel's financial condition or its results of operations.

FORWARD LOOKING STATEMENTS → Certain statements in this management's discussion and analysis constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of Mitel, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and assumptions include, among others, the following: general economic and business conditions; demographic changes; import protection and regulation; rapid technology development and changes; timing of product introductions; the mix of products/services; industry competition, industry capacity and other industry trends; and the ability of Mitel to attract and retain key employees.

Management responsibility for consolidated financial statements

Management of Mitel Corporation is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared by management in accordance with appropriately selected accounting principles generally accepted in Canada. Their preparation necessarily involves the use of management's best estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information in the Annual Report is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and reliable preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through a program of internal audits, careful selection and training of personnel, and the adoption and communication of financial and other relevant policies, including a code of business conduct.

The Board of Directors discharges its responsibilities for the consolidated financial statements primarily through the activities of its Audit Committee which is composed solely of directors who are neither officers nor employees of the Company. This committee meets quarterly with management, the Company's internal auditors, and the Company's independent auditors to review performance and to discuss audit, internal control, accounting policy and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The consolidated financial statements have been audited by Ernst & Young LLP, who were appointed by the shareholders at the Annual General Meeting. Their report is presented on the following page.

Kirk K. Mandy → President & CEO

Jean-Jacques Carrier → Senior Vice President, Finance & CFO

Auditors' report

To the Shareholders of Mitel Corporation:

We have audited the consolidated balance sheets of Mitel Corporation as at March 26, 1999 and March 27, 1998 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three year period ended March 26, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 26, 1999 and March 27, 1998 and the results of its operations and its cash flows for each of the years in the three year period ended March 26, 1999 in accordance with accounting principles generally accepted in Canada.

Ernst & Young

Ottawa, Canada
May 6, 1999

Ernst & Young LLP → Chartered Accountants

Mitel Corporation
Consolidated balance sheets

[incorporated under the laws of Canada]

In millions of Canadian dollars	March 26, 1999	March 27, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 125.3**	$ 117.2
Short-term investments	**–**	34.5
Accounts receivable [notes 4 & 23]	**326.3**	302.3
Inventories [note 5]	**198.1**	162.2
Prepaid expenses and other	**27.4**	27.3
	677.1	643.5
Long-term receivables [note 6]	**35.4**	27.9
Fixed assets [note 7]	**507.7**	549.3
Acquired intangible assets [note 8]	**56.7**	13.9
Patents, trademarks and other [note 9]	**23.4**	17.4
	$1,300.3	$1,252.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities [note 10]	**$ 254.1**	$ 290.7
Income and other taxes payable	**11.8**	33.9
Deferred revenue	**36.6**	32.7
Current portion of long-term debt [note 11]	**37.6**	40.3
	340.1	397.6
Long-term debt [note 11]	**276.5**	379.6
Pension liability [note 26]	**13.2**	12.2
Deferred income taxes	**23.2**	27.1
	653.0	816.5
Commitments and contingencies [notes 12 & 13]		
Shareholders' equity:		
Capital stock [note 14]		
Preferred shares	**37.2**	37.2
Common shares [1999 – 116,705,531; 1998 – 108,394,631]	**331.2**	157.3
Contributed surplus [note 14]	**32.3**	32.3
Retained earnings	**218.4**	202.9
Translation account [note 15]	**28.2**	5.8
	647.3	435.5
	$1,300.3	$1,252.0

[see accompanying notes to the consolidated financial statements]

On behalf of the Board:

Dr. Henry Simon → Director

Kirk K. Mandy → Director

Mitel Corporation

Consolidated statements of retained earnings

[in millions of Canadian dollars]

Years ended	March 26, 1999	March 27, 1998	March 28, 1997
Retained earnings, beginning of year	**$ 202.9**	$ 114.2	$ 79.4
Net income	**26.2**	91.9	38.0
	229.1	206.1	117.4
Cost of common share issue [note 14]	**(7.5)**	–	–
Dividends on preferred shares [note 14]	**(3.2)**	(3.2)	(3.2)
Retained earnings, end of year	**$ 218.4**	$ 202.9	$ 114.2

[see accompanying notes to the consolidated financial statements]

Mitel Corporation
Consolidated statements of income

[in millions of Canadian dollars, except per share amounts]

Years ended	March 26, 1999	March 27, 1998	March 28, 1997
Revenue [note 16]	**$1,310.4**	$ 881.4	$ 695.5
Cost of sales [note 16]:			
Cost of sales other than amortization	**645.6**	432.6	344.4
Amortization of manufacturing assets	**66.8**	25.0	15.1
	712.4	457.6	359.5
Gross margin	**598.0**	423.8	336.0
Expenses:			
Selling and administrative	**332.9**	246.0	220.9
Research and development (net) [note 17]	**149.8**	52.0	50.0
Amortization of acquired intangibles [note 8]	**22.4**	1.8	0.7
Special charges (net) [note 18]	**10.1**	–	13.0
	515.2	299.8	284.6
Operating income from continuing operations	**82.8**	124.0	51.4
Investment and interest income [note 19]	**5.9**	5.7	9.6
Interest expense [note 11]	**(23.5)**	(7.2)	(2.4)
Debt issue and other costs [note 11]	**(7.2)**	–	–
Income from continuing operations before income taxes	**58.0**	122.5	58.6
Income tax expense [note 20]	**17.5**	30.5	20.6
Net income from continuing operations	**40.5**	92.0	38.0
Income (loss) from discontinued operations [note 21]	**2.0**	(0.1)	–
Estimated loss on disposal of discontinued operations [note 21]	**(16.3)**	–	–
	(14.3)	(0.1)	–
Net income	**$ 26.2**	$ 91.9	$ 38.0
Net income attributable to common shareholders after preferred share dividends	**$ 23.0**	$ 88.7	$ 34.8
Net income per common share [notes 3 & 14]:			
Net income per common share from continuing operations:			
Basic	**$ 0.33**	$ 0.82	$ 0.32
Fully diluted	**$ 0.32**	$ 0.80	$ 0.32
Net income per common share:			
Basic	**$ 0.20**	$ 0.82	$ 0.32
Fully diluted	**$ 0.20**	$ 0.80	$ 0.32
Weighted average number of common shares outstanding [millions]			
Basic	**114.0**	107.8	107.3
Fully diluted	**115.9**	114.0	110.5

[see accompanying notes to the consolidated financial statements]

Mitel Corporation
Consolidated statements of cash flows

[in millions of Canadian dollars]

Years ended	March 26, 1999	March 27, 1998	March 28, 1997
CASH PROVIDED BY (USED IN)			
Operating activities:			
Net income	**$ 26.2**	$ 91.9	$ 38.0
Amortization of capital and other assets	**143.2**	50.8	33.5
Estimated loss on disposal of discontinued operations	**16.3**	–	–
Investment tax credits	**(7.0)**	(18.0)	–
Special charges	**0.5**	–	5.3
Gain on sale of capital assets	**(6.0)**	(0.7)	(4.5)
Deferred income taxes	**(7.8)**	0.6	(0.2)
Change in pension liability	**0.9**	1.0	0.6
Increase in working capital [note 28]	**(123.2)**	(50.2)	(6.6)
Total	**43.1**	75.4	66.1
Investing activities:			
Change in short-term investments	**34.5**	53.3	(2.9)
Additions to capital and other assets	**(63.0)**	(8.3)	(42.6)
Proceeds from disposal of capital assets	**11.9**	7.2	5.0
Acquisitions [note 22]	**(46.6)**	(343.8)	(5.1)
Net change in non-cash balances related to investing activities	**5.7**	(0.2)	5.4
Total	**(57.5)**	(291.8)	(40.2)
Financing activities:			
Increase in long-term debt	**0.4**	339.7	2.2
Repayment of long-term debt	**(132.7)**	(10.6)	(23.5)
Repayment of capital lease liabilities	**(9.0)**	(42.4)	(3.4)
Debt issue costs	**(2.0)**	(10.9)	–
Dividends on preferred shares	**(3.2)**	(3.2)	(3.2)
Issue of common shares – net [note 14]	**166.4**	4.0	2.7
Net change in non-cash balances related to financing activities	**–**	–	0.8
Total	**19.9**	276.6	(24.4)
Effect of currency translation on cash	**2.6**	1.5	1.6
Increase in cash and cash equivalents	**8.1**	61.7	3.1
Cash and cash equivalents, beginning of year	**117.2**	55.5	52.4
Cash and cash equivalents, end of year	**$ 125.3**	$ 117.2	$ 55.5

[see accompanying notes to the consolidated financial statements]

[in millions of Canadian dollars, except per share amounts]

1. NATURE OF OPERATIONS

Mitel is an international communications products supplier. The Company's principal business segments comprise the manufacture and distribution of communications systems and microelectronic components. The principal markets for the Company's products are the United States, Europe, Canada and the Asia/Pacific region.

2. ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. A reconciliation of amounts presented in accordance with United States accounting principles is detailed in note 25.

The preparation of financial statements in conformity with Canadian and United States accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

A) FISCAL YEAR END → The Company's fiscal year end is the last Friday in March.

B) BASIS OF CONSOLIDATION → The consolidated financial statements include the accounts of the Company and of its wholly-owned subsidiary companies. Investments in associated companies, except for joint ventures, in which the Company has significant influence are accounted for by the equity method. Investments in joint ventures are accounted for by the proportionate consolidation method.

C) CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS → The Company has adopted the new recommendations of Section 1540 of the CICA Handbook "Cash Flow Statements" and has restated the comparative years' financial information to conform to this revised standard.

All highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents. The fair value of cash equivalents approximates the amounts shown in the financial statements.

Short-term investments comprise highly liquid low risk debt instruments with terms of usually not greater than one year. Short-term investments are carried at fair value, which approximates their cost.

D) INVENTORIES → Inventories are valued at the lower of average cost and net realizable value for work-in-process and finished goods, and current replacement cost for raw materials. The cost of inventories includes material, labour and manufacturing overhead.

E) CAPITAL AND OTHER ASSETS → Capital assets are initially recorded at cost, net of related research and development and other government assistance. Goodwill is initially recorded at the excess of the Company's cost over the amount of the fair value of the net identifiable assets acquired in a business combination. The Company evaluates the realizability of these assets based upon the expected future undiscounted cash flows of the related assets.

Amortization is provided on the bases and at the rates set out below:

Assets	Basis	Rate
Buildings	Straight-line	4%
Equipment	Declining balance	20 – 30%
	Straight-line	10 – 33.3%
Goodwill and other acquired intangibles	Straight-line	50%
Patents and trademarks	Straight-line	10 – 33.3%

Prior to Fiscal 1999, the estimated useful life of acquired intangibles and goodwill ranged from five to fifteen years. During the fourth quarter of Fiscal 1999, management revised the estimated technological useful life of these assets. The effect of prospectively applying this revision was an incremental amortization of $14.7, or $0.13 per share, in the fourth quarter of Fiscal 1999.

F) FOREIGN CURRENCY TRANSLATION → The Company uses the current rate method of foreign currency translation to translate the accounts of its foreign subsidiaries. The resulting unrealized gains or losses are deferred and included in shareholders' equity until there is a reduction in the net investment in a foreign operation.

Exchange gains or losses related to translation of, or settlement of, foreign currency denominated long-term monetary items are deferred and amortized on a straight-line basis over the remaining life of the items.

G) DERIVATIVE FINANCIAL INSTRUMENTS → The Company enters into foreign exchange contracts intended to hedge its estimated net foreign currency cash requirements, and certain significant transactions, generally over the ensuing twelve to eighteen months. The Company does not engage in a trading or speculative hedging program. All foreign exchange contracts are marked to market and the resulting gains and losses are deferred and included in the measurement of the related transactions when they occur.

The Company uses interest rate swap contracts to manage interest rate risk. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on a basis that matches them with the related fluctuations in the interest receipts and payments under floating rate financial assets and liabilities.

H) REVENUE RECOGNITION → Revenue from the sale of products is recognized at the time goods are shipped to customers. Revenue from the sale of communications systems including integration and installation services, is recognized on a percentage of completion basis. Revenue from service is recognized at the time services are rendered. Billings in advance of services are included in deferred revenue. Estimated warranty costs associated with these revenues are provided for at the time of the sale.

I) INCOME TAXES → Income taxes are accounted for using the deferred tax allocation method under which the income tax provision is based on the income reported in the accounts. Investment tax credits ("ITC") are taken into income on the same basis as the related expenditures are charged to income or applied against acquired fixed assets, as applicable, provided the Company expects the credits to be realized. Management periodically reviews the reasonable assurance of realizing the ITC carryforward and timing difference benefits in the determination of their accounting recognition. Such review may result in the recording of the accounting benefit for these timing differences and ITC carryforwards, as the circumstances warrant, and the recognition of loss carryforwards, as realized.

J) DEVELOPMENT COSTS → The Company interprets the criteria for deferral of development costs on a very stringent basis under which few, if any, costs qualify for deferment. In the three years ended March 26, 1999, all development costs, except acquired intangibles purchased in a business combination, were expensed as incurred. Management periodically evaluates the realizability of the purchased development costs based upon the expected future undiscounted cash flows of the related assets.

3. SUPPLEMENTARY INCOME INFORMATION

As a supplementary measure to assess financial performance, management utilizes adjusted net income and adjusted net income per common share which exclude the impact of amortization of acquired intangibles, special charges (net), non-cash debt issue and other costs expensed on an early partial debt repayment, and discontinued operations. The adjusted net income and adjusted net income per common share are as follows:

	1999	1998	1997
Net income as reported	**$ 26.2**	$ 91.9	$ 38.0
Adjusted net income, as adjusted for:			
Amortization of acquired intangibles	**22.4**	1.8	0.7
Special charges (net)	**10.1**	–	13.0
Debt issue and other costs	**7.2**	–	–
(Income) loss from discontinued operations	**(2.0)**	0.1	–
Estimated loss on disposal of discontinued operations	**16.3**	–	–
Adjusted net income	**$ 80.2**	$ 93.8	$ 51.7
Adjusted net income per common share – basic	**$ 0.67**	$ 0.84	$ 0.45

4. ACCOUNTS RECEIVABLE

Included in accounts receivable was an allowance for doubtful accounts of $8.7 (1998 – $10.2). Also included in accounts receivable was an amount of $16.9 (1998 – $32.5) for unbilled accounts on long-term contracts (see also note 6).

5. INVENTORIES

	1999	1998
Raw materials	**$ 47.8**	$ 53.4
Work-in-process	**86.1**	60.3
Finished goods	**64.2**	48.5
	$ 198.1	$ 162.2

6. LONG-TERM RECEIVABLES

	1999	1998
Investment tax credits recoverable	**$ 17.3**	$ 10.7
Promissory note, bearing interest at 10%, due in March 2011 and against which a first deed on property was pledged as security	**10.5**	10.3
Other long-term receivables	**7.6**	6.9
	$ 35.4	$ 27.9

7. FIXED ASSETS

	1999	1998
Cost:		
Land	**$ 13.4**	$ 13.2
Buildings	**169.1**	173.5
Equipment	**553.5**	514.4
Equipment under capital leases	**148.4**	130.1
	884.4	831.2
Less accumulated amortization:		
Buildings	**80.8**	71.0
Equipment	**243.6**	175.7
Equipment under capital leases	**52.3**	35.2
	376.7	281.9
	$ 507.7	$ 549.3

8. ACQUIRED INTANGIBLE ASSETS

	1999	1998
Cost:		
In-process technology	**$ 8.1**	$ 2.7
Developed technology	**34.4**	9.0
Customer base and work force	**11.9**	–
Goodwill	**24.8**	3.7
	79.2	15.4
Less accumulated amortization:		
In-process technology	**1.7**	0.1
Developed technology	**10.9**	0.6
Customer base and work force	**2.9**	–
Goodwill	**7.0**	0.8
	22.5	1.5
	$ 56.7	$ 13.9

9. PATENTS, TRADEMARKS AND OTHER

	1999	1998
Cost:		
Patents and trademarks	**$ 16.3**	$ 14.3
Deferred debt issue costs	**8.5**	10.5
Deferred foreign exchange loss	**10.5**	–
	35.3	24.8
Less accumulated amortization:		
Patents and trademarks	**9.8**	7.2
Deferred debt issue costs	**2.1**	0.2
	11.9	7.4
	$ 23.4	$ 17.4

On February 12, 1998, the Company entered into a credit agreement with a syndicate of lenders for total debt facilities of U.S. $310.0 (see also note 11). The facilities were used to acquire the GEC-Plessey Semiconductors Group ("Plessey") (see also note 22) as well as to provide a line of credit for general corporate purposes. The Company incurred $12.9 in respect of associated debt issue costs. These costs were deferred and will be amortized over the life of the debt and in pro rata amounts related to early prepayments against the term loans.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	1999	1998
Trade payables	**$ 79.4**	$ 82.2
Restructuring and other provisions [see also notes 18 & 22]	**35.3**	59.3
Employee-related payables	**38.4**	36.4
Other accrued liabilities	**75.0**	112.8
Provision for estimated loss on disposal of discontinued operations [note 21]	**26.0**	–
	$ 254.1	$ 290.7

11. LONG-TERM DEBT

	1999	1998
AXELs Series B, at a variable interest rate based on the lower of a defined base rate or a successive three month LIBOR rate plus 2.25%; at March 26, 1999 the effective interest rate was 8.04% [1998 – 8.25%]; with quarterly installments and due December 2003. [1999 – U.S. $118.4; 1998 – U.S. $150.0]	**$ 178.2**	$ 211.9
Tranche A Term Loan, at a variable interest rate based on the lower of a defined base rate or a successive three month LIBOR rate plus 1.75%; at March 26, 1999 the effective interest rate was 7.79% [1998 – 8.00%]; with quarterly installments and due February 2003. [1999 – U.S. $27.5; 1998 – U.S. $85.0]	**41.2**	119.7
Capital leases and other, at rates varying from 5.8% to 12.2% with payment terms ranging from 1 to 5 years [1998 – 3.4% to 12.2% with payment terms ranging from 3 to 5 years]	**90.5**	84.5
Non-interest bearing 1996 Canada-Quebec government loan, repayable in three equal annual installments commencing July, 2001	**4.2**	3.8
	314.1	419.9
Less current portion	**37.6**	40.3
	$ 276.5	$ 379.6

During Fiscal 1998, the Company entered into a credit agreement in the amount of U.S. $310.0 with Goldman Sachs Credit Partners L.P. ("GSCP"), as advisor, arranger, lender, and syndication agent; certain financial institutions as lenders; and the Canadian Imperial Bank of Commerce ("CIBC"), as lender and administrative agent for the lenders. The credit agreement provided senior secured credit facilities consisting of: (i) a 5 year Tranche A Term Loan amounting to U.S.$85.0; (ii) a 6 year Amortization Extended Term Loan (AXELs) Series B loan amounting to U.S.$150.0; and (iii) a 5 year revolving credit facility amounting to U.S.$75.0 (see also note 27). The proceeds from the term loans were used to fund the acquisition of 100 percent of the capital stock of four affiliated entities which, together with their respective subsidiaries, comprise Plessey (see also note 22).

To secure the credit agreement obligations, the Company granted to the lenders a first priority lien on substantially all of its personal property and certain of its real property, including a pledge of all of the capital stock of each of its principal subsidiaries. Certain restrictive covenants and financial ratios required to be maintained are set out for the purpose of measuring the Company's ability to meet its obligations under the credit agreement. The Company is subject to certain mandatory prepayments in the event of asset sales (other than inventory), equity offerings and debt issuances, certain insurance proceeds, and defined excess cash flow. Mandatory prepayments range from 75 percent to 100 percent of the net cash proceeds and would be paid on a pro rata basis toward the senior secured term loans. The Company believes it is in compliance with the obligations and restrictive covenants under the credit agreement.

On July 23, 1998, the Company, through a syndicate of underwriters, issued 8 million common shares at a price of $21.50 per share and for total proceeds of $172.0 (see also note 14). Net proceeds of $164.1 were received by the Company, of which $123.1 was applied to repay a portion of the AXELs Series B and Tranche A term loans. The balance of the proceeds was retained for general corporate purposes.

Future minimum lease payments of the obligations under capital leases total $99.1 of which $31.5, $28.3, $21.5, $14.7, and $3.1 relate to fiscal years 2000 to 2004 and beyond respectively. Interest costs of $9.2 are included in the total future lease payments.

Scheduled principal repayments, excluding obligations under capital leases, during the next five fiscal years are: 2000 – $10.4; 2001 – $11.3; 2002 – $14.4; 2003 – $57.7; 2004 – $130.1. Interest expense, including the portion related to discontinued operations, related to long-term debt was $37.7 in Fiscal 1999 (1998 – $7.6; 1997 – $2.3).

12. COMMITMENTS

A) OPERATING LEASES → The future minimum lease payments for operating leases for which the Company was committed were as follows: 2000 – $24.2; 2001 – $20.6; 2002 – $12.1; 2003 – $7.7; 2004 – $6.3; 2005 and beyond – $33.5.

B) LETTERS OF CREDIT → The Company had letters of credit outstanding as at March 26, 1999 of approximately $14.2 to secure duty charges.

13. CONTINGENCIES

(a) The Company is a defendant in a number of lawsuits and party to a number of other claims or potential claims that have arisen in the normal course of its business. In the opinion of the Company's legal counsel, any monetary liability or financial impact of such lawsuits and claims or potential claims to which the Company might be subject after final adjudication would not be material to the consolidated financial position of the Company or the consolidated results of its operations (see also note 17).

(b) Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information which uses year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure that could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. CAPITAL STOCK

The Company's authorized capital stock consists of an unlimited number of preferred and common shares.

Shares outstanding	1999	1998
Preferred shares – R&D series	**1,616,300**	1,616,500
Common shares	**116,705,531**	108,394,631

A) PREFERRED SHARES – R&D SERIES → The preferred shares were issued in Fiscal 1984 for gross cash proceeds of $95.2 of which $51.5 ($23.00 per share) was allocated to capital stock with the balance being the consideration received for the sale of tax rights.

Dividends — Fixed cumulative cash dividends are payable quarterly at a rate of $2.00 per share per annum.
Redemption — The shares are currently redeemable, at the option of the Company, at $25.00 per share plus accrued dividends.
Purchase Obligation — Commencing January 1, 1989, the Company was required to make reasonable efforts to purchase 22,400 shares in each calendar quarter at a price not exceeding $25.00 per share plus costs of purchase. The difference between the stated capital of the repurchased shares over the consideration paid for such shares is recorded against contributed surplus.

B) COMMON SHARES → An analysis of the changes in the number of common shares and the amount of share capital for the three years ended March 26, 1999 is as follows:

	Number	Amount
Balance, March 29, 1996	106,084,494	$ 150.6
Exercise of warrants	1,000,000	1.7
Exercise of employee stock options	330,137	1.0
Balance, March 28, 1997	107,414,631	153.3
Exercise of employee stock options	980,000	4.0
Balance, March 27, 1998	108,394,631	157.3
Public share offering, July 23, 1998	8,000,000	172.0
Exercise of employee stock options	310,900	1.9
Balance, March 26, 1999	116,705,531	$ 331.2

C) NET INCOME PER COMMON SHARE → The net income per common share figures were calculated based on net income from continuing operations and net income, as applicable, after the deduction of preferred share dividends and using the weighted monthly average number of shares outstanding during the respective fiscal years. The calculation of fully diluted earnings per share assumes that, if a dilutive effect is produced, all outstanding options had been exercised at the later of the beginning of the fiscal year and the option issue date, and includes an allowance for imputed earnings net of tax derived from the investment of funds which would have been received.

D) DIVIDEND RESTRICTIONS ON COMMON SHARES → The Company may not declare cash dividends on its common shares unless dividends on the preferred shares have been declared and paid, or set aside for payment.

Pursuant to the terms of the credit agreement described in note 11, the Company is required to maintain a minimum net worth, thereby limiting the amount of dividends that could be paid out. The preferred shares dividend has not violated this covenant. No common share dividend is currently being paid out.

E) STOCK OPTION PLANS → At the Company's 1991 Annual General Meeting, the shareholders approved resolutions authorizing stock options for key employees and non-employee directors. Certain amendments to the plan were approved by the shareholders at the 1993, 1995 and 1998 Annual General Meetings allowing for 1,000,000, 2,000,000 and 10,200,000 additional shares, respectively, to be made available for grant. Available for grant at March 26, 1999 were 10,465,525 (1998 – 243,525; 1997 – 1,113,525) shares. All options granted have up to maximum ten year terms and become fully exercisable at the end of four years of continuous employment.

A summary of the Company's stock option activity and related information for the three years ended March 26, 1999 is as follows:

	1999		1998		1997	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding options:						
Balance, beginning of year	**6,251,888**	**$ 12.30**	3,238,638	$ 5.71	2,902,525	$ 4.54
Granted	**403,000**	**$ 19.40**	4,237,750	$ 15.19	713,500	$ 9.23
Exercised	**(310,900)**	**$ 6.12**	(980,000)	$ 4.12	(330,137)	$ 2.95
Cancelled	**(425,000)**	**$ 15.38**	(244,500)	$ 7.87	(47,250)	$ 6.06
Balance, end of year	**5,918,988**	**$ 12.89**	6,251,888	$ 12.30	3,238,638	$ 5.71
Exercisable, end of year	**2,367,963**	**$ 9.55**	1,303,407	$ 5.18	1,580,776	$ 3.75
Weighted average fair value price of options granted during the year using the Black-Scholes fair value option pricing model [see also note 25]		**$ 10.40**		$ 8.07		$ 4.54

A summary of options outstanding at March 26, 1999 is as follows:

	Total outstanding			Total exercisable	
Exercise price	Options	Weighted average exercise price	Weighted average remaining contractual life	Options	Weighted average exercise price
$ 1.10 – $ 2.39	358,225	$ 1.92	4 years	358,225	$ 1.92
$ 3.90 – $ 5.75	381,350	$ 5.14	5 years	381,350	$ 5.14
$ 6.39 – $ 9.20	1,219,413	$ 7.29	7 years	623,013	$ 7.32
$ 9.32	427,000	$ 9.32	7 years	213,500	$ 9.32
$ 9.41 – $ 11.73	390,750	$ 9.98	8 years	82,250	$ 9.77
$ 17.78	2,838,500	$ 17.78	5 years	709,625	$ 17.78
$ 17.84 – $ 30.00	303,750	$ 21.04	5 years	–	–
	5,918,988			2,367,963	

15. TRANSLATION ACCOUNT

The following table summarizes changes in the translation account:

	1999	1998	1997
Balance, beginning of year	**$ 5.8**	$ 2.5	$ 3.3
Increase (decrease):			
Movements in exchange rates –			
U.S. dollar	**18.3**	(2.1)	–
U.K. pound sterling	**3.1**	7.2	5.4
Swedish krona	**1.4**	(1.0)	(4.4)
Other currencies	**1.2**	(1.0)	–
Reduction of net investments in subsidiaries	**(1.6)**	0.2	(1.8)
Balance, end of year	**$ 28.2**	$ 5.8	$ 2.5

16. SERVICE REVENUE

During the year, revenue from providing support services amounted to $99.8 (1998 – $82.0; 1997 – $70.5). The cost of sales related to providing these services during Fiscal 1999 amounted to $63.9 (1998 – $51.4; 1997 – $47.0).

17. INVESTMENT TAX CREDITS AND GOVERNMENT ASSISTANCE

During the year, the Company recognized Canadian ITCs and other funding of $23.7 (1998 – $40.7; 1997 – $11.9) related to eligible R&D expenditures. Contributions of $5.0 made to the Company in prior years under the Microelectronics and System Development Program, a federal assistance program, are contingently repayable if the resulting technology is commercially successful. The contributions are repayable based on a percentage of related sales over a period not to exceed ten years and ending on June 30, 2004. Any amount unpaid at the end of the ten year period would be forgiven. The total amounts repaid and repayable to March 26, 1999 were negligible.

18. SPECIAL CHARGES

During the fourth quarter of Fiscal 1999, the Company recorded a net pre-tax special charge of $10.1 related to the rationalization of certain Company business segments, net of a gain of $6.0 on the disposal of certain non-strategic technology and other assets. The rationalization related to steps taken to streamline North American and European sales channels, and to transfer the network access product manufacturing operations from North America to the United Kingdom, where the majority of the sales are generated. Also included in the charge was the cost of severance and related benefits, with the majority of the reduction taking place in the North American and Far East regions. Approximately 100 people are to be terminated as part of this rationalization program. All of these activities are expected to be substantially completed by December 1999. As at March 26, 1999, $4.5 of severance, benefits, facilities and other costs had been paid, and the balance of the special charge included in accounts payable and accrued liabilities amounted to $10.8.

In Fiscal 1997, the Company recorded a charge of $13.0 comprising $8.0 relating to the restructuring of the Mitel Communications Systems group and a write-off of $5.0 on the investment and related assets in the Company's joint venture in China. The restructuring program related to this provision was completed during Fiscal 1999.

19. INVESTMENT AND INTEREST INCOME

On September 27, 1996, the Company sold its equity interest in Esprit Telecom (Jersey) Ltd. ("Esprit"), a non-strategic holding which was carried at a nominal cost. The gain on the sale of shares in Esprit was $3.6 and was included in investment and interest income in Fiscal 1997.

20. INCOME TAXES

Details of income taxes were as follows:

	1999	1998	1997
Income from continuing operations before income taxes:			
Canadian	**$ 53.0**	$ 115.1	$ 52.5
Foreign	**5.0**	7.4	6.1
	$ 58.0	$ 122.5	$ 58.6
Income tax expense (recovery):			
Current			
Canadian	**$ 20.9**	$ 28.8	$ 14.9
Foreign	**4.4**	1.1	7.0
Deferred			
Foreign	**(7.8)**	0.6	(1.3)
	$ 17.5	$ 30.5	$ 20.6

Deferred taxes on income generally result from timing differences primarily in the recognition of tax loss carryforwards.

The income tax expense reported differs from the amount computed by applying the Canadian rates to the income before income taxes. The reasons for these differences and their tax effects were as follows:

	1999	1998	1997
Expected tax rate	**40%**	40%	40%
Expected tax expense	**$ 23.2**	$ 49.0	$ 23.4
Foreign tax rate differences	**(7.0)**	(1.1)	(2.2)
Tax effect of losses not recognized	**9.7**	0.7	8.7
Tax effect of realizing benefit of prior years' loss carryforwards and timing differences	**(11.7)**	(18.0)	(13.9)
Corporate minimum taxes	**1.5**	0.7	3.2
Other	**1.8**	(0.8)	1.4
Income tax expense	**$ 17.5**	$ 30.5	$ 20.6

Unremitted earnings of subsidiaries subject to withholding taxes will be indefinitely reinvested with no provision necessary for potential withholding taxes on repatriation of subsidiary earnings. The income before income taxes attributable to all foreign operations was $5.0 (1998 – $7.4; 1997 – $6.1).

As at March 26, 1999, the Company had tax loss carryforwards of approximately $125.0 for which an accounting benefit was recognized on approximately $15.0 of these tax losses. The remaining tax loss carryforwards are available to reduce future years' income for tax purposes. The tax loss carryforwards for which an accounting benefit has been recognized do not expire while the remaining tax loss carryforwards expire as follows: 2003 – $14.7; 2004 – $8.5; 2005 – $13.9; 2006 to 2014 – $72.9. The tax loss carryforwards relate to operations in the United States, the United Kingdom, Germany, France and Hong Kong. As at March 26, 1999, the Company had Canadian ITC carryforwards of approximately $41.7, which are available to reduce future years' income taxes, for which the benefit was recognized in these financial statements. These ITCs expire during the years from 2001 to 2009. In addition, the Company had timing differences of approximately $44.0 for which no accounting benefit was recognized.

21. DISCONTINUED OPERATIONS

On March 26, 1999, the Company adopted formal plans to pursue divestiture opportunities related to the distinct operations of the Lincoln Power and Automotive business segment ("Lincoln") which was part of the Plessey group acquired in Fiscal 1998 (see also note 22). Management expects to sell or otherwise dispose the Lincoln business within the next fiscal year. Accordingly, the operations related to this business are accounted for as discontinued operations.

Sales applicable to Lincoln for Fiscal 1999 and Fiscal 1998 were $74.3 and $7.1, respectively. The income (loss) before income taxes includes allocated interest expense related to long-term debt of $7.0 and $0.5 in 1999 and 1998, respectively. Interest expense was allocated to discontinued operations based on a ratio of Lincoln revenue to total Plessey revenue. For Fiscal 1999, the Company recorded income from discontinued operations of $2.0 (1998 – loss of $0.1) including income tax recoveries of $0.8 (1998 – $0.1). The estimated loss on disposal of Lincoln was $16.3, net of estimated income tax recoveries of

$9.7. Basic and fully diluted loss per common share from discontinued operations were $0.13 and $0.12, respectively, for Fiscal 1999 and $nil for Fiscal 1998 and 1997.

As at March 26, 1999, total net assets related to Lincoln included inventories of $18.2 (1998 – $22.3), fixed assets of $13.6 (1998 – $15.5) and current liabilities of $14.3 (1998 – $19.5).

22. ACQUISITIONS

(A) On May 8, 1998, the Company acquired certain assets of the Customer Premises Equipment Business Unit of Centigram Communications Corporation, now operated as the Advanced Messaging business unit under the name Baypoint Innovations, for cash consideration of U.S.$22.0. The Company also purchased receivables and inventories related to that business for approximately U.S.$4.8 in cash. The Advanced Messaging business, based in San Jose, California, provides productivity-enhancing, enterprise-wide messaging solutions to organizations around the world through a broad network of distributors and agents. The acquisition was accounted for by the purchase accounting method. The purchase price allocation was based on fair values assigned to net assets as determined by an independent valuation firm using standard valuation techniques. An amount of $35.9 was allocated to identifiable intangible assets that include completed and in-process research and development and other intangible assets. The difference between the purchase price and the fair value of the net identifiable assets amounted to $0.6, which was recorded as goodwill. The identifiable intangible assets and the goodwill are amortized over a two year period (see also note 1(F)). The allocation to net identifiable assets included $2.9 in respect of the acquisition costs and costs to integrate the operations of the acquired company. As at March 26, 1999, the liability in respect of acquisition and integration costs was $1.3. The purchase transaction was summarized as follows:

Net assets acquired, at approximate fair values:

Current assets	$ 6.6
Capital assets	39.2
Total assets	45.8
Current liabilities	7.2
Total net assets	$ 38.6
Cash consideration	$ 38.6

Pro Forma financial information for the acquisition as if the business had been acquired at the beginning of the Fiscal 1999 is not presented due to the insignificant impact on the Company's results of operations.

(B) On May 19, 1998, the Company acquired the products, technology, research and development facilities and sales and marketing organization of Glasgow-based TSc for cash consideration of $8.0. TSc, now defined as ISDN PBX, provides ISDN business products for the small to medium enterprise market. The acquisition was accounted for by the application of the purchase accounting method in which the results of operation were included in the Company's accounts from the date of acquisition. An amount of $4.5 was allocated to identifiable intangible assets relating to completed research and development. The difference between the purchase price and the fair value of the net identifiable assets amounted to $2.0, which was recorded as goodwill. The completed research and development and the goodwill are being amortized over a two year period (see also note 1 (F)). The allocation to net identifiable assets included $2.0 in respect of the acquisition costs and costs to integrate the operations of the acquired company. As at March 26, 1999, the liability in respect of acquisition and integration costs are $nil. The purchase transaction was summarized as follows:

Net assets acquired, at approximate fair values:

Current assets	$ 2.4
Capital assets	7.6
Total assets	10.0
Current liabilities	2.0
Total net assets	$ 8.0
Cash consideration	$ 8.0

Pro Forma financial information for the acquisition as if the business had been acquired at the beginning of the Fiscal 1999 is not presented due to the insignificant impact on the Company's results of operations.

(C) On February 12, 1998, the Company and certain of its wholly owned subsidiaries acquired 100 percent of the capital stock of four affiliated entities which, together with their respective subsidiaries, comprise Plessey for a total cash consideration of $323.6 (U.S. $225.0). Plessey, headquartered in Swindon, U.K., is an international semiconductor manufacturer for communications and media applications. The acquired company operates as Mitel Semiconductor Limited in the U.K. and as Mitel Semiconductor Americas Inc. in the U.S. The acquisition was accounted for by the purchase accounting method. The purchase transaction was summarized as follows:

Net assets acquired, at approximate fair value:	
Current assets [including cash of $1.4]	$ 134.4
Capital assets	354.3
Other assets	10.5
Total assets	499.2
Current liabilities	143.4
Capital leases	18.3
Deferred income taxes	13.9
Total liabilities	175.6
Total net assets	$ 323.6
Cash consideration	$ 323.6

As at March 26, 1999, the liability in respect of acquisition costs was $nil (1998 – $10.6) and $10.6 (1998 – $45.2) in respect of integration costs. The integration costs primarily related to initial estimates to exit the Lincoln Power and Automotive business segment, the transfer of redundant production activities from Sweden to Plymouth, U.K., and to severance costs for redundancies in the acquired semiconductor segment throughout the world. The remaining integration activities are expected to be completed during Fiscal 2000.

Unaudited Pro Forma financial information for the acquisition as if the business had been acquired at the beginning of each respective fiscal period is presented as follows:

[unaudited]	1998 Pro Forma combined	1997 Pro Forma combined
Revenue	**$1,227.3**	$1,152.9
Net income	**$ 41.2**	$ 34.0
Net income attributable to common shareholders after preferred share dividends	**$ 38.0**	$ 30.8
Net income per common share:		
Basic	**$ 0.35**	$ 0.29
Fully diluted	**$ 0.35**	$ 0.28

The unaudited Pro Forma information does not include the operating savings or synergies anticipated as a result of the combined operations.

(D) On August 8, 1997, the Company acquired certain assets and the remote access business of Gandalf Technologies Inc. ("Gandalf") for cash consideration of $21.6. The purchase agreement did not include Gandalf's service business. Gandalf's remote access products and technology facilitate high volume data and voice communications between the corporate office, local branches, teleworkers, and agents in the field. Gandalf's operations are based principally in Canada, the United States, and the United Kingdom. In addition to the cash consideration, the Company incurred expenses of $0.5 in respect of acquisition costs and $0.6 in respect of costs to integrate the operations of the acquired company. As at March 27, 1998, the integration program was substantially completed.

This acquisition was accounted for by the purchase accounting method. The purchase price allocation was based on fair values assigned to net assets as determined by an independent valuation firm using standard valuation techniques. An amount of $14.9 was allocated to identifiable intangible assets which include completed and in-process research and development, trademarks, and the tradename. The purchase transaction was summarized as follows:

Net assets acquired, at approximate fair value:

Current assets	$ 7.1
Capital assets	15.6
Total assets	22.7
Current liabilities	1.1
Total net assets	$ 21.6
Cash consideration	$ 21.6

(E) On January 31, 1997, the Company acquired the business and assets of Global Village Communication (U.K.) Limited, an ISDN solution provider based in the United Kingdom, for cash consideration of $5.1. This acquisition was accounted for by the purchase accounting method. The difference between the purchase price and the fair value of the acquired net assets amounted to $3.3, all of which was recorded as goodwill. The purchase transaction is summarized as follows:

Net assets acquired, at approximate fair value:

Current assets	$ 3.1
Capital assets	1.0
Goodwill	3.3
Total assets	7.4
Current liabilities	2.3
Total net assets	$ 5.1
Cash consideration	$ 5.1

23. RELATED PARTY TRANSACTIONS

During the year ended March 26, 1999, the Company sold to and purchased from jointly controlled and significantly influenced enterprises products and services valued at approximately $3.8 (1998 – $2.5; 1997 – $8.1) and $1.0 (1998 – $nil; 1997 – $nil) respectively.

24. INFORMATION ON BUSINESS SEGMENTS

Reportable segments, known as "business segments", are defined as components of an enterprise about which separate financial information is available and is used regularly by the chief operating decision makers to evaluate the segment's performance and assess future cash flow. Mitel's chief decision making group includes the Chief Executive Officer, the Board of Directors and certain executives in each of the operating segments at Mitel.

Reportable segments are business units that offer different products and services that are managed separately because of their different manufacturing and distribution processes. The Company's reportable business segments include the Mitel Communications Systems ("Systems") group and the Mitel Semiconductor ("Semiconductor") group.

Mitel Communications Systems provides enterprises with voice and data communications systems; complete private networks, including remote teleworking solutions; unified messaging and call-center applications; CTI systems and applications; and it also supplies competitive carriers with public network access products. All of Mitel's service revenue relates to Systems.

Mitel Semiconductor provides connectivity solutions for the communications and medical industries with a product range which includes components for both wired and wireless networks; microelectronics for enabling the convergence of voice and data; optoelectronic devices for high-speed Internet systems; and also, applications-specific integrated circuits ("ASICs") for medical applications such as pacemakers and hearing-aids.

The Company evaluates the performance and allocates resources based on operating income from continuing operations, which excludes any intersegment sales of products and services. Mitel does not allocate amortization of intangibles, special charges, interest revenue or interest expense and income taxes to its reportable segments. In addition, total assets are not allocated to each segment; however, depreciation of capital assets is allocated to the segments based on the asset usage. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

1999	Systems	Semiconductor	Unallocated costs	Total
Total external sales revenue	$ 752.7	$ 557.7	$ –	$1,310.4
Amortization of buildings and equipment	20.9	84.9	–	105.8
Amortization of acquired intangibles	–	–	22.4	22.4
Special charges (net)	–	–	10.1	10.1
Segment's operating income (loss) from continuing operations	61.2	54.1	(32.5)	82.8

1998	Systems	Semiconductor	Unallocated costs	Total
Total external sales revenue	$ 566.8	$ 314.6	$ –	$ 881.4
Amortization of buildings and equipment	18.2	30.8	–	49.0
Amortization of acquired intangibles	–	–	1.8	1.8
Special charges (net)	–	–	–	–
Segment's operating income (loss) from continuing operations	42.3	83.5	(1.8)	124.0

1997	Systems	Semiconductor	Unallocated costs	Total
Total external sales revenue	$ 474.5	$ 221.0	$ –	$ 695.5
Amortization of buildings and equipment	15.1	17.7	–	32.8
Amortization of acquired intangibles	–	–	0.7	0.7
Special charges (net)	–	–	13.0	13.0
Segment's operating income (loss) from continuing operations	7.1	58.0	(13.7)	51.4

GEOGRAPHIC SEGMENTS · Revenues from external customers are attributed to countries based on location of the selling organization. Geographic information is as follows:

	1999			1998			1997
	Revenue	Fixed assets	Goodwill and other intangibles	Revenue	Fixed assets	Goodwill and other intangibles	Revenue
Canada	$ 142.8	$ 128.9	$ 23.9	$ 141.0	$ 120.6	$ 22.1	$ 113.4
United States	591.6	11.5	31.3	405.7	7.2	5.6	312.9
United Kingdom	502.2	343.4	22.7	284.2	383.6	1.7	204.4
Sweden	30.2	23.5	–	29.9	36.9	–	43.6
Other foreign countries	43.6	0.4	2.2	20.6	1.0	1.9	21.2
Consolidated total	$1,310.4	$ 507.7	$ 80.1	$ 881.4	$ 549.3	$ 31.3	$ 695.5

MAJOR CUSTOMERS → No single customer accounted for 10% or more of the Company's revenue for the last three fiscal years. In addition, the Company is not dependent on any single customer or group of customers, or suppliers.

25. UNITED STATES ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) which, in the case of the Company, conform in all material respects with those in the United States (U.S. GAAP) and with the requirements of the Securities and Exchange Commission (SEC), except as follows:

(A) Under Canadian GAAP, unrealized and realized gains and losses on foreign currency transactions identified as hedges may be deferred as long as there is reasonable assurance that the hedge will be effective. Under U.S. GAAP, deferral is allowed only on foreign currency transactions intended to hedge identifiable firm foreign currency commitments.

(B) Under Canadian GAAP, investments in joint ventures are recognized in the financial statements of the venturer by applying the proportionate consolidation method of accounting. Under U.S. GAAP, equity accounting is applied to investments in joint ventures when preparing the consolidated financial statements of the venturer.

(C) Under Canadian GAAP, stock issue costs are shown as an adjustment to retained earnings. The carrying amount of capital stock is shown net of issue costs under U.S. GAAP.

(D) Redeemable preferred shares are excluded from shareholders' equity under requirements of the SEC.

(E) Reductions in stated capital and deficit are not recorded under U.S. GAAP. The Company had previously undertaken stated capital and deficit reductions in fiscal years 1985, 1986, 1987 and 1992.

(F) The Company implemented SFAS 130 in Fiscal 1999, regarding comprehensive income for purposes of reconciliation to U.S. GAAP. Under U.S. GAAP, items defined as other comprehensive income such as foreign currency translation adjustments, are separately classified in the financial statements and the accumulated balance of other comprehensive income (loss) is reported separately in shareholders' equity on the balance sheet.

(G) The Company implemented SFAS 109, Accounting for Income Taxes, in Fiscal 1994 for purposes of reconciliation to U.S. GAAP. As at March 26, 1999, the Company's deferred tax asset, primarily related to the benefit of realizing investment tax credit, loss carryforwards and timing differences, net of a valuation allowance of $80.0 (1998 – $85.5), was $29.3 (1998 – $42.7), and deferred tax liabilities, primarily related to buildings and equipment, were $23.2 (1998 – $27.1). The application of this method also gives rise to differences in the allocation of consideration with respect to business combinations which may result in the recognition of deferred tax balances. Subsequent realization of any unrecognized tax benefits will be applied to reduce any remaining goodwill or intangibles of the related acquisitions, before being reported in net income for U.S. GAAP purposes.

(H) Under U.S. GAAP the fully diluted earnings per share is computed in accordance with the treasury stock method and based on the weighted average number of common shares and dilutive common share equivalents.

(I) Purchased R&D, under Canadian GAAP is capitalized and amortized over the remaining useful life of the technology to which it relates. Under U.S. GAAP, the purchased in-process R&D is expensed at the time of acquisition. The Company has not established the technical feasibility of the in-process R&D and it has no alternative future use.

(J) As allowed under SFAS 123, accounting for stock based compensation, management has determined that it will continue to apply Accounting Principles Board Opinion No. 25 (APB 25), in accounting for its employee stock options for purposes of reconciliation to U.S. GAAP because the alternative fair value accounting provided for under SFAS 123 requires the use of option valuation models that were not developed for use in valuing employee stock options. In accordance with Company policy, the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. Accordingly under the rules of APB 25, no related compensation expense was recorded in the Company's results of operations for U.S. GAAP purposes.

(K) Under Canadian GAAP, exchange gains or losses related to translation of foreign currency denominated long-term monetary items are deferred and amortized over the remaining life of the items. Under U.S. GAAP, deferral is not allowed and such gains or losses are included in the determination of net income.

(L) Under Canadian GAAP, certain costs related to the acquirer may be recognized in the purchase price allocation when accounting for business combinations. These costs, subject to certain conditions, qualify where they are a direct substitute for costs that would otherwise be incurred with respect to the acquired business. Under U.S. GAAP, only costs relating directly to the acquired business may be considered in the purchase price allocation.

(M) The Company implemented SFAS 131 "Disclosure about Segments of an Enterprise and Related Information" and has provided the required disclosure in note 24.

(N) The Company has adopted SFAS 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits" and has provided the required disclosure.

(O) The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") which will be effective for the Company's March 31, 2002 year end. The Company has not determined the impact, if any, of this pronouncement on its consolidated financial statements.

The following table reconciles the net income as reported on the consolidated statements of income to the net income that would have been reported had the financial statements been prepared in accordance with U.S. GAAP and the requirements of the SEC. The proportionate consolidation method for joint ventures does not affect the measurement of income or shareholders' equity and therefore is not addressed in the following table:

	1999	1998	1997
Net income from continuing operations in accordance with Canadian GAAP	**$ 40.5**	$ 92.0	$ 38.0
Write-off of acquired in-process technology	**(5.5)**	(2.7)	–
Amortization of acquired in-process technology	**2.3**	0.2	–
Effect of deferral accounting related to foreign exchange contracts	**1.4**	0.4	(7.2)
Translation of foreign currency denominated debt	**(14.1)**	6.4	–
Adjustment to deferred income taxes	**(16.3)**	6.1	10.2
Acquirer's redundancy provisions	**(3.4)**	(12.4)	–
U.S. GAAP and SEC requirements:			
Net income from continuing operations	**4.9**	90.0	41.0
Income (loss) from discontinued operations	**2.0**	(0.1)	–
Estimated loss on disposal of discontinued operations	**(16.3)**	–	–
	(14.3)	(0.1)	–
Net income (loss)	**(9.4)**	89.9	41.0
Less: dividends on cumulative preferred shares	**3.2**	3.2	3.2
Net income (loss) attributable to common shareholders	**$ (12.6)**	$ 86.7	$ 37.8
Net income per common share from continuing operations:			
Basic and diluted	**$ 0.01**	$ 0.80	$ 0.35
Net income (loss) per common share:			
Basic and diluted	**$ (0.11)**	$ 0.80	$ 0.35
Weighted average shares for basic EPS [millions]	**114.0**	107.8	107.3
Weighted average shares on conversion of stock options [millions]	**1.5**	1.1	1.2
Adjusted weighted average shares and share equivalents [millions]	**115.5**	108.9	108.5

The following options were excluded in the computation of diluted earnings per share from continuing operations because the options' exercise price exceeded the average market price of the common shares and, therefore, the effect would be antidilutive: options outstanding for the year ended March 26, 1999 to purchase 3,142,250 (1998 – 3,167,250; 1997 – 647,000) shares of common stock at an average exercise price of $17.90 (1998 – $17.69; 1997 – $9.31) per share.

The components of comprehensive income are as follows:

	1999	1998	1997
Net income (loss) – U.S. GAAP	**$ (9.4)**	$ 89.9	$ 41.0
Change in foreign currency adjustment	**22.4**	3.3	(0.8)
Comprehensive income	**$ 13.0**	$ 93.2	$ 40.2

Balance sheet items, which vary, in conformity with U.S. GAAP and SEC requirements:

	1999	1998
Prepaid and other assets: Current deferred tax asset	**$ 8.8**	$ 11.8
Fixed assets	**$ 487.6**	$ 525.1
Acquired intangible assets	**$ 51.1**	$ 11.4
Long-term receivables: Long-term deferred tax asset	**$ 20.5**	$ 23.6
Accounts payable and accrued liabilities	**$ 261.2**	$ 284.5
Shareholders' equity:		
Redeemable preferred shares	**$ 34.4**	$ 34.4
Common shares	**$ 772.4**	$ 606.0
Contributed surplus	**$ 2.5**	$ 2.5
Accumulated other comprehensive income	**$ 28.2**	$ 5.8
Deficit	**$ (221.6)**	$ (209.0)

Pro Forma financial information required by SFAS 123 has been determined as if the Company had accounted for its employee stock options using the Black-Scholes fair value option pricing model with the following weighted-average assumptions for fiscal years 1999, 1998 and 1997:

	1999	1998	1997
U.S. GAAP Pro Forma net income (loss) attributable to common shareholders after preferred dividends	**$ (23.3)**	$ 84.0	$ 36.6
U.S. GAAP Pro Forma net income (loss) per common share:			
Basic	**$ (0.20)**	$ 0.78	$ 0.34
Diluted	**$ (0.20)**	$ 0.77	$ 0.34

	1999	1998	1997
Risk-free interest rate	**5.04%**	5.30%	5.45%
Dividend yield	**nil**	nil	nil
Volatility factor of the expected market price of the Company's common stock	**0.495**	0.483	0.565
Weighted-average expected life of the options	**6 years**	6 years	6 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of Pro Forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis (see also note 14).

26. PENSION PLANS

The Company maintains several defined contribution and three defined benefit pension plans for its employees. Pension expense was $10.2 in Fiscal 1999 (1998 – $6.4; 1997 – $4.8).

A) DEFINED CONTRIBUTION PENSION PLANS → Both the Company and the employees contribute to these plans based on the employees' earnings.

B) DEFINED BENEFIT PENSION PLANS → The Company's policy is to fund defined benefit pension plans in accordance with independent actuarial valuations and as permitted by pension regulatory authorities.

There are two contributory defined benefit plans that cover substantially all employees of Mitel Telecom Limited and Mitel Semiconductor Limited ("MSL"), two wholly owned subsidiaries of the Company. These plans provide pension benefits based on length of service and final pensionable earnings. Employee contributions are based on pensionable earnings. Actuarial reports in connection with these defined benefit plans, updated to March 26, 1999, were based on projections of employees' compensation levels to the time of retirement.

The MSL pension plan was implemented on February 1, 1999 and employees will be eligible to pension benefits after a two-year period from the implementation date. The actuarial present value of MSL accrued pension benefits was $nil as at March 26, 1999.

For purposes of an actuarial valuation, pension fund assets were valued using the discounted income method. Under this approach, the value of the assets is obtained by estimating the receipts which will arise in the future from the plan's investments and then discounting the amounts to the valuation date, at the valuation rate of return on assets.

The third defined benefit plan covers all employees over the age of twenty-eight in Sweden and provides pension benefits based on length of service and final pensionable earnings. There are no pension fund assets under the plan. The associated pension liability is calculated each year by the Pension Registration Institute and is insured in its entirety by Forsakringsbolaget Pensionsagaranti. The pension liability of $13.2 (72.7 SEK) (1998 – $12.2 (67.9 SEK)) was actuarially determined based on the present value of the accrued future pension benefits and in accordance with applicable laws and regulations in Sweden.

The following table shows the plans' funded status reconciled with amount reported in the consolidated balance sheets, and the assumptions used in determining the actuarial present value of the benefit obligations:

	1999	1998
Change in accrued pension benefits:		
Benefit obligation at beginning of year	**$ 84.4**	$ 61.2
Service cost	**5.8**	4.6
Interest cost	**5.6**	4.6
Plan participants' contributions	**(2.0)**	(1.2)
Actuarial loss	**1.5**	12.0
Benefits paid	**(0.7)**	(0.7)
Foreign exchange	**1.9**	3.9
Benefit obligation at end of year	**96.5**	84.4
Change in plan assets:		
Fair value of plan assets at beginning of year	**70.3**	53.5
Actual return on plan assets	**7.0**	12.4
Employer contributions	**3.3**	1.2
Benefits paid	**(0.7)**	(0.7)
Foreign exchange	**1.7**	3.9
Fair value of plan assets at end of year	**81.6**	70.3
Unfunded status	**(14.9)**	(14.1)
Unrecognized net actuarial loss	**1.7**	1.9
Accrued benefit cost	**$ (13.2)**	$ (12.2)
Assumptions:		
Discount rate	**6.0%-8.0%**	6.0%-8.5%
Compensation increase rate	**3.0%-6.0%**	3.0%-6.5%
Investment return assumption	**8%**	9%

27. FINANCIAL INSTRUMENTS

(A) FAIR VALUE → The Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, long-term receivables, accounts payable, long-term debt, interest swaps and foreign exchange contracts. Due to the short-term maturity of cash and cash equivalents, short-term investments and accounts payable, the carrying values of these instruments are reasonable estimates of their fair value. The fair value of the foreign exchange contracts reflects estimated amount that the Company would have been required to pay if forced to settle all outstanding contracts on year-end. This fair value represents a point-in-time estimate that may not be relevant in predicting the Company's future earnings or cash flows. The fair value of financial instruments approximate their carrying value with the following exceptions:

	1999		1998	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt:				
Capital leases and other	**$ 90.5**	**$ 87.4**	$ 84.5	$ 83.8
Non-interest bearing 1996 Canada-Quebec government loan	**4.2**	**3.2**	3.8	3.0
Derivatives				
Interest rate swap	**–**	**1.9**	–	–

(B) DERIVATIVE FINANCIAL INSTRUMENTS → The Company operates globally, and therefore may experience risk that earnings and cash flows may be adversely impacted by fluctuations in foreign exchange. The Company uses foreign exchange contracts to manage foreign exchange risk. The notional amounts for foreign exchange contracts represent the U.S. dollar equivalent of an amount exchanged. Generally, foreign exchange contracts are designated for firmly committed or forecasted sales and purchases that are expected to occur in less than one year. Most of the foreign exchange contracts mature within three months with the longest maturity extending to two years. At March 26, 1999, deferred gains totalled $3.4 (1998 – $0.9) and deferred losses totalled $3.6 (1998 – $12.8). The following table presents the net notional amounts of these derivative financial instruments in U.S. dollars:

Buy (Sell): [U.S. dollars]	1999	1998
Foreign exchange contracts:		
British pounds	**$ (142.3)**	$ (189.4)
Canadian dollars	**101.2**	171.8
Swedish krona	**8.8**	6.1
Euro	**(6.0)**	–
Italian lira	**(5.2)**	(0.4)
French francs	**(3.7)**	(0.6)
Other	**(5.0)**	0.8
Total	**$ (52.2)**	$ (11.7)

In addition, foreign exchange contracts of 11.5 British pounds were outstanding as at March 27, 1998 to buy the following currencies: $7.1 U.S. dollars, 32.4 French francs, 2.7 Deutsche marks, 646.7 Japanese yen and 977.0 Italian lira.

On March 12, 1998, the Company entered into an interest rate swap to fix the interest on a portion of the AXELs Series B loan and the Tranche A Term Loan for a notional amount of $224.5 (U.S. $157.0). Since then, it has been reduced to $219.7 (U.S. $145.8), which is sufficient to cover the total outstanding balance of the two term loans. The base interest rate was fixed at 5.79 percent and the contract matures on March 2001. This interest rate swap is considered to be an effective hedge of the variable interest rate on the term loans. The Company is exposed to credit risk in the event of non-performance, but does not anticipate non-performance by the counterparty.

(C) CREDIT RISK → The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable and derivative contracts. Cash and cash equivalents and short-term investments are invested in government and commercial paper with investment grade credit rating.

The Company is exposed to normal credit risk from customers. However, the Company's orientation is global with a large number of diverse customers to minimize concentrations of credit risk.

Mitel is exposed to credit risk in the event of non-performance by its counterparties on its foreign exchange contracts and interest rate swap. The Company does not anticipate non-performance, by any of the counterparties, as it deals with counterparties who are major financial institutions. The Company anticipates the counterparties will satisfy their obligations under the contracts.

(D) INTEREST RATE RISK → The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and current liabilities.

(E) UNUSED BANK LINES OF CREDIT → The Company has a line of credit for $113.0 (U.S.$75.0), of which up to $30.1 (U.S.$20.0) is available for letters of credit. At March 26, 1999, $2.3 (U.S.$1.5) (1998 – $8.7) in letters of credit were outstanding against this credit facility, thus the Company had unused and available demand bank lines of credit amounting to approximately $110.7 (U.S.$73.5) (1998 – $97.3) at a rate of interest based on the LIBOR (5.0 percent), plus 2 percent.

28. SUPPLEMENTARY CASH FLOW INFORMATION

	1999	1998	1997
Net change in non-cash working capital balances related to operating activities:			
Accounts receivable	**$ (22.4)**	$ (65.6)	$ (9.8)
Inventories	**(28.7)**	(6.3)	(11.6)
Accounts payable and accrued liabilities	**(75.4)**	28.9	10.3
Deferred revenue	**3.0**	5.1	2.9
Other	**0.3**	(12.3)	1.6
	$ (123.2)	$ (50.2)	$ (6.6)
Cash interest paid	**$ 38.7**	$ 9.0	$ 3.8
Cash taxes paid	**$ 17.2**	$ 6.5	$ 6.8

29. COMPARATIVE FIGURES

Certain of the 1998 and 1997 comparative figures have been reclassified so as to conform to the presentation adopted in 1999.

Selected financial data

[in millions of Canadian dollars, except per share amounts]

The following table is derived from the consolidated financial statements included elsewhere herein, which have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). These principles also conform, in all material respects, with accounting principles generally accepted in the United States (U.S. GAAP), and the requirements of the SEC, except as more fully described in note 25 to the consolidated financial statements.

Canadian GAAP	Fiscal year ended [at the end of fiscal year for balance sheet data] 1999	1998	1997	1996	1995
Income Statement Data:					
Revenue	**$1,310.4**	$ 881.4	$ 695.5	$ 576.4	$ 589.4
Gross margin percentage	**46%**	48%	48%	48%	44%
Gross research and development expense	**175.7**	92.4	61.5	46.5	44.9
Net income from continuing operations	**40.5**	92.0	38.0	51.0	31.8
Net income	**26.2**	91.9	38.0	51.0	31.8
Net income per common share from continuing operations	**0.33**	0.82	0.32	0.45	0.27
Net income per common share					
Basic	**0.20**	0.82	0.32	0.45	0.27
Fully diluted	**0.20**	0.80	0.32	0.44	0.27
Weighted average common shares outstanding	**114.0**	107.8	107.3	105.9	105.6
Balance Sheet Data:					
Working capital	**$ 337.0**	$ 245.9	$ 206.3	$ 210.3	$ 208.4
Total assets	**1,300.3**	1,252.0	584.8	517.1	440.6
Current portion of long-term debt	**37.6**	40.3	14.8	11.2	9.0
Long-term debt	**276.5**	379.6	43.0	39.6	34.5
Pension liability	**13.2**	12.2	11.3	12.1	–
Shareholders' equity (including redeemable preferred shares)	**647.3**	435.5	339.5	302.8	263.0

U.S. GAAP and SEC Requirements	Fiscal year ended [at the end of fiscal year for balance sheet data] 1999	1998	1997	1996	1995
Income Statement Data:					
Net income from continuing operations	**$ 4.9**	$ 90.0	$ 41.0	$ 56.9	$ 59.0
Net income (loss)	**(9.4)**	89.9	41.0	56.9	59.0
Net income per common share from continuing operations	**0.01**	0.80	0.35	0.51	0.53
Net income (loss) per common share					
Basic	**(0.11)**	0.80	0.35	0.51	0.52
Diluted	**(0.11)**	0.80	0.35	0.50	0.52
Balance Sheet Data:					
Working capital	**$ 328.2**	$ 278.2	$ 208.4	$ 213.5	$ 205.8
Total assets	**1,278.9**	1,250.0	595.0	517.1	440.6
Redeemable preferred shares	**34.4**	34.4	34.4	34.4	35.8
Shareholders' equity					
Common shares	**772.4**	606.0	599.2	596.5	595.6
Contributed surplus	**2.5**	2.5	2.5	2.5	2.6
Deficit	**(221.6)**	(209.0)	(292.9)	(330.7)	(384.3)
Translation account	**28.2**	5.8	2.5	3.3	10.6

See note 21 to the consolidated financial statements for a discussion on the effect of the discontinued operations on Fiscal 1999 and 1998 results.

Supplementary financial information

[in millions of Canadian dollars, except per share amounts; unaudited]

SELECTED QUARTERLY FINANCIAL DATA [in accordance with Canadian generally accepted accounting principles]

Fiscal 1999	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
Revenue	$ 289.6	$ 347.6	$ 344.1	$ 329.1	$1,310.4
Gross margin	129.8	158.7	161.8	147.7	598.0
Gross margin percentage	45%	46%	47%	45%	46%
Net income (loss) from continuing operations	15.7	16.3	19.7	(11.2)	40.5
Net income (loss)	14.6	12.8	17.7	(18.9)	26.2
Net income (loss) per common share from continuing operations	0.14	0.13	0.16	(0.10)	0.33
Net income (loss) per common share					
Basic	0.13	0.10	0.15	(0.17)	0.20
Fully diluted	0.13	0.10	0.14	(0.17)	0.20
Adjusted Net Income per common share +	0.15	0.23	0.18	0.13	0.67

Fiscal 1998	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
Revenue	$ 182.0	$ 205.0	$ 215.5	$ 278.9	$ 881.4
Gross margin	86.1	99.0	106.4	132.3	423.8
Gross margin percentage	47%	48%	49%	47%	48%
Net income from continuing operations	18.2	23.3	25.6	24.9	92.0
Net income	18.2	23.3	25.6	24.8	91.9
Net income from continuing operations and net income per common share					
Basic	0.16	0.21	0.23	0.22	0.82
Fully diluted	0.16	0.20	0.22	0.22	0.80
Adjusted Net Income per common share +	0.16	0.21	0.24	0.23	0.84

+ Excludes the impact of amortization of acquired intangibles, special charges (net), non-cash debt issue and other costs expensed on an early partial debt repayment, and discontinued operations.

Net income from continuing operations previously reported in Form 10-Q differ from amounts reported above as a result of the reclassification of discontinued operations. The reclassification resulted in increases of income from continuing operations of $1.1, $3.5 and $2.0 in the first, second and third quarters of Fiscal 1999, respectively and a decrease of $7.7 in the fourth quarter of Fiscal 1999. The impact on the Fiscal 1998 quarterly results was negligible.

EXCHANGE RATES OF THE CANADIAN DOLLAR

The high and low exchange rates (i.e. the highest and lowest rates at which Canadian dollars were sold), the average exchange rate (i.e. the average of the exchange rates on the last day of each month during the period) and the period end exchange rates of the Canadian dollar in exchange for U.S. currency for each of the five years ended December 31, 1998 and for the period January 1, 1998 through May 6, 1999, calculated based on the noon buying rates as reported by the Federal Reserve Bank of New York, were as follows:

U.S. Dollars	**January 1 to May 6, 1999**	1998	1997	1996	1995	1994
High	**0.6890**	0.7105	0.7487	0.7513	0.7527	0.7632
Low	**0.6535**	0.6341	0.6945	0.7235	0.7023	0.7103
Average	**0.6721**	0.6740	0.7223	0.7332	0.7286	0.7318
Period End	**0.6870**	0.6504	0.6999	0.7301	0.7323	0.7128

Common share information

PRINCIPAL MARKETS

The Toronto Stock Exchange and the New York Stock Exchange are the principal markets on which the Company's shares are traded. The shares are also listed on the Montreal and London Stock Exchanges. The Company's shares were first listed on the Toronto Stock Exchange on August 13, 1979 and on the New York Stock Exchange on May 18, 1981. The stock symbol of the Company's shares is MLT. The following table sets forth the high and low sales prices for the common shares for each quarter of the last two fiscal years.

	1999		1998	
Toronto Stock Exchange [Canadian Dollars]	**High**	**Low**	High	Low
1st Quarter	**$ 23.5500**	**$ 18.4000**	$ 8.2000	$ 6.6000
2nd Quarter	**$ 21.8000**	**$ 15.0000**	$ 10.9500	$ 7.1000
3rd Quarter	**$ 16.8000**	**$ 10.1500**	$ 13.0000	$ 10.0000
4th Quarter	**$ 14.5500**	**$ 9.9000**	$ 19.2000	$ 10.5500

	1999		1998	
New York Stock Exchange [Canadian Dollars]	**High**	**Low**	High	Low
1st Quarter	**$ 16.1875**	**$ 12.6875**	$ 6.0000	$ 4.7500
2nd Quarter	**$ 14.8750**	**$ 9.6875**	$ 7.9375	$ 5.1875
3rd Quarter	**$ 10.8750**	**$ 6.5625**	$ 9.3125	$ 7.1250
4th Quarter	**$ 9.4375**	**$ 6.4375**	$ 13.5000	$ 7.3125

SHAREHOLDERS

There were 4,769 common shareholders of record as at May 6, 1999.

DIVIDEND POLICY

The Company has not declared or paid any dividends on its common shares and the Board of Directors anticipates that, with the exception of preferred share dividend requirements, all available funds will be applied in the foreseeable future to finance growth, and to improve the Company's competitive position and profitability.

Pursuant to the terms of the $2.00 Cumulative Redeemable Convertible Preferred Shares, 1983 R&D Series (Preferred Shares – R&D Series), the Company will not be permitted to pay any dividends on common shares unless all dividends accrued on the preferred shares have been declared and paid or set apart for payment.

Pursuant to the terms of the credit agreement described in note 11 to the consolidated financial statements, the Company is required to maintain a minimum net worth, thereby limiting the amount of dividends that could be paid out. The preferred shares dividend does not violate this covenant. Since the Company does not anticipate any dividends on its common shares, the covenant is not expected to have an impact on the dividend policy.

Dividends paid by the Company to common shareholders not resident in Canada would generally be subject to Canadian withholding tax at the rate of 25 percent or such lower rate as may be provided under applicable tax treaties. Under the Canada – United States tax treaty, the rate of withholding tax applicable to such dividends paid to residents of the United States would generally be 15 percent.

Corporate directory

BOARD OF DIRECTORS

Dr. Henry Simon
Chairman of the Board
Chairman, Schroder Ventures Life Sciences Advisers

André Borrel
International Consultant

Jean-Jacques Carrier
Senior Vice President, Finance and Chief Financial Officer

Anthony L. Craig
President
Tamandra, Inc.

Hubert T. Lacroix
Partner
McCarthy Tétrault
Barristers & Solicitors

Kirk K. Mandy
President and Chief Executive Officer

Donald G. McIntyre
Senior Vice President, Human Resources
General Counsel and Secretary

Dr. John B. Millard
Past President and Chief Executive Officer

Donald W. Paterson
President
Cavandale Corporation

Peter van Cuylenburg
President, DLT and Storage Systems Group
Quantum Corporation

Jonathan I. Wener
Chairman
Canderel Holdings Ltd.

MEMBERS OF BOARD COMMITTEES

EXECUTIVE

Dr. Henry Simon
Chairman

Hubert T. Lacroix
Peter van Cuylenburg
Kirk K. Mandy
Jean-Jacques Carrier

COMPENSATION

Jonathan I. Wener
Chairman

Anthony L. Craig
Donald W. Paterson

NOMINATING

Dr. Henry Simon
Chairman

Hubert T. Lacroix
Kirk K. Mandy

AUDIT

Hubert T. Lacroix
Chairman

Donald W. Paterson
Peter van Cuylenburg

PRESIDENT AND VICE PRESIDENTS

Kirk K. Mandy
President and Chief Executive Officer

SENIOR VICE PRESIDENTS

Paul Butcher
Senior Vice President
Mitel Communications Systems

Jean-Jacques Carrier
Senior Vice President, Finance and Chief Financial Officer

François Cordeau
Senior Vice President and General Manager
Mitel Semiconductor

Donald G. McIntyre
Senior Vice President, Human Resources
General Counsel and Secretary

Moris M. Simson
Senior Vice President Strategy and Corporate Development and, Chief Technology and Marketing Officer

VICE PRESIDENTS

Carl W. Carruthers
Vice President
Product Supply and North American Distribution Sales
Mitel Communications Systems

Shirley J. Mears
Vice President, Treasurer

Tim Saunders
Vice President and Corporate Controller

Geoffrey A. Smith
Vice President
Product Development
Mitel Communications Systems

Officers of the Corporation

Investor information

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10:30 a.m., Thursday, July 29th, 1999 at Mitel Corporation, 350 Legget Drive, Kanata, Ontario, Canada.

ANNUAL REPORT ON FORM 10-K SHAREHOLDER INQUIRIES

Shareholders and other individuals requesting information about Mitel or wishing to receive, free of charge, copies of the Annual and Quarterly Reports, including the Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission and Canadian Regulatory Authorities, should call or write to →

PUBLIC AND INVESTOR RELATIONS DEPARTMENT
Mitel Corporation
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RAPPORT ANNUEL EN FRANÇAIS

On peut se procurer la version française du rapport annuel 1999 auprès du service des relations publiques et des relations avec les investisseurs.

TRANSFER AGENTS AND REGISTRARS

Montreal Trust Company
Toronto, Ontario

The Bank of Nova Scotia Trust
Company of New York
New York, New York

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Ernst & Young LLP
Ottawa, Ontario

LEGAL COUNSEL

McCarthy Tétrault
Montreal, Quebec
Ottawa, Ontario

Rubin Baum Levin
Constant & Friedman
New York, New York

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange
The Montreal Stock Exchange
New York Stock Exchange
The Stock Exchange, London

Common Stock Symbol – MLT
Preferred Stock Symbol – MLT.PR.A
(TSE and ME only)

Worldwide locations

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Lansdale, PA
Littleton, CO
Lyndhurst, NJ
Marietta, GA
Meriden, CT
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